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Advanced Management

MODERN MANAGEMENT

IN THIS ISSUE

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DECEMBER 1949

Professional Management

THERE WAS A TIME within recall of most of us when "management" was synonymous with "ownership." Such is not the case today, as we all well know. Managers today are those who "run" the business for the owners. Management is a new profession, and on the shoulders of the nation's professional manager rests the responsibility for the skillful operation of individual businesses. Even more — on their effectiveness depends the very future of our American way of life.

Only when valid management is achieved can each employee make his maximum contribution and obtain his greatest reward — a condition which must be met if we are to continue to realize the full benefits of our American Enterprise System. The stakes are high.

Managers everywhere are facing the challenge. More and more top (policy) management men are taking membership in our Society and urging their management associates at subordinate levels to join with them and give active support to the advancement of the science of management.

These leaders in management are well aware that the management of an individual business is no stronger than its weakest member. The effectiveness of the individual manager, regardless of the organization level at which he functions, are enhanced or limited by the other managers in his organization. This rule applies also to the composite of all management throughout the country. No matter how effective the management of an individual business, it can be made more effective if the companies with which it deals are operated efficiently.

It is apparent then, to all members of the profession, that we must continue to share ideas, to exchange information on methods and techniques and to do everything else which will help to raise the level and improve the proficiency of management. These are the methods of objective attainment of our Society.

There must be a spirit of unity among all members of the management profession. This must begin in the individual business by answering very clearly the question, "Who is Management?" This delineation must be followed by provisions to insure that each individual member of management performs only management functions, that he is really a part of the management team, and that he and all others know this. A feeling of "oneness" among all management members of a company must exist if a mutuality of interest between employees and management is to be developed.

This spirit of unity must prevail in and among all businesses and their managements and among all management organizations to an ever-increasing degree. This is imperative if the values of our American way are to be realized to the fullest.

The issuance of a Chapter Charter by our Society calls for a profession of faith by the Charter members in the social values of that management which seeks to base its action on facts, insists upon the perpetuation of the human spirit and the dignity of the individual in all its relations and strives increasingly for the development of the skills of democratic administration.

The Society pledges encouragement and aid to the men and women of the new chapters in their work for the establishment of more effective and socially richer leadership among themselves and their associates and throughout the community.

These statements symbolize the purpose of each of us as members of this Society. As we fulfill this objective, we will truly advance "Management — the oldest of the arts — the youngest of the professions."

DILLARD E. BIRD

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ELLEN RYAN, Acting Editor

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President, Antioch College
Yellow Springs, Ohio

All human behavior is directed toward the satisfaction of needs — social as well as economic. People are seeking achievement and social approval through their jobs, in addition to food, shelter, activity.

NO one knows how many millions of words have been written about human relations in industry, nor how many thousands of "disassociated facts" have been unearthed in this fertile field of study, just as many thousands of disassociated facts have been discovered in clinical psychology and psychiatry. Certainly many of these words are meaningful, many of these facts are pertinent. But where is the "coordinating committee" that can tell us — and this is the focus of my paper—what are the essential conditions for the successful organization of human economic effort?

We need today, not more disassociated facts, but an integrated theory. We need desperately to know how people can work together in business enterprises, efficiently and without undue strife, to produce and distribute goods and services for all of us.

In discussing this question I am adopting explicitly the framework of the free-enterprise system. I may be subject to the charge that this is too limited a frame of reference. It may be argued that an adequate theory of organized human economic effort must be applicable to any economic system. To limit discussion to this one smacks of propaganda; it brings values into social science.

Perhaps it does. My answer is threefold: First, I don't think we can or should keep values out of social science, or physical science either, for that matter. It is more realistic to attempt to make them explicit, and therefore subject to criticism and experiment, than to adopt the awkward posture of the ostrich.

Second, the task of discussing an all-encompassing theory of organized economic effort is entirely beyond my intellectual powers. I think I know enough about the operation of business enterprise under our system to be able to discuss certain of its features critically. I don't know enough about other systems, actual or potential, to do so.

Third, I wonder along with many other people whether our free-enterprise system, in which I sincerely believe, is going to be discarded. I am convinced that if it is, one of the important reasons will be our failure to solve some of the acute problems of human relations that we face in industry today. It may be that these problems, unless solved, would make *any* economic system unworkable. If it were possible, I should like to have us be reasonably sure it is the economic system that is at fault before we discard it and adopt another, and not certain aspects of human behavior that may be inherent in *all* economic systems.

Is successful organized human effort possible within our free-enterprise economy? By "successful" I mean: Can the objectives of all the groups comprising the business enterprise be simultaneously achieved to their reasonable satisfaction without injuring the consumer or the public generally?

We must recognize that the purpose of a business enterprise in a free-enterprise economy is the production and sale of goods or services at a profit. We may talk all we wish about the social responsibilities of business and industry; the fact remains that unless this fundamental profit purpose is achieved, the enterprise will cease to exist.

It is equally a fact that the objectives of the groups comprising a business enterprise—owners, managers, workers—are not identical with the economic purpose of the enterprise. They may be compatible with it, but they are not identical. To be sure, logic demands that all the members *should* have this organizational purpose; for if it is not achieved, they will become members of a non-existent organization.

Psychologists need not be reminded of the distinctions between logic and psychology, nor argue about what people *should* do. The fact is that what the members of any business enterprise *are* doing is striving to satisfy their personal needs.

This leads to what I conceive to be the cornerstone of a theory of organized human effort: All human behavior is directed toward the satisfaction of needs.

This is not an argument for a simple hedonism. People have social needs as well as biological, altruistic as well as egoistic. I am using "need" much as Murray or Lewin uses it — to refer to tension-states, the manifestations of which are observable in behavior.

The people comprising an industrial organization are seeking through their membership in that organization to satisfy needs for food, shelter, power, prestige, social approval, knowledge,

This article is adapted from a paper delivered before the American PsychologicalAssociation at Denver, Col., September 7, 1949.

achievement, love, activity, and dozens more. And they work or restrict output, cooperate or fight, join unions or refuse to join them, obey rules or disobey them, invest money in the organization or withdraw it, formulate policy, give orders, delegate responsibility or keep it—and whatever else they do—because they perceive that by doing so they will best satisfy their needs.

IGNORING IMPLICATIONS

I hope you will pardon me for belaboring such an obvious point, but it requires emphasis. I have become convinced that the difficulties we face in industrial relations today are traceable in considerable part to industrial management's failure to perceive the implications of this straightforward characteristic of human behavior. Not only managers, but stockholders, union leaders, workers, and even industrial psychologists regularly ignore those implications. The industrial engineer ignores them when he blames worker stupidity or uncooperativeness for the small success of his pet incentive system. The manager ignores them when he blames "labor agitators" for the unionization of his plant. The worker ignores them when he accuses his foreman of "passing the buck." The manager ignores them when he accuses workers of laziness and asserts that fear is the only effective motivator (for workers, of course, and not for him).

In the broadest terms we can state the essential nature of successful organized human effort in a free-enterprise economy by direct reference to this basic characteristic of behavior. *It is that set of circumstances under which members of the organization expect to satisfy their needs by directing their efforts toward the production and sale of goods or services at a profit.*

WHIP vs. BRIBE

A considerable and intimate experience among managers of industrial organizations in the past decade has convinced me that their conception of the managerial task is often directly at variance with this generalization. They consider their job to be that of *making* people do what they decide must be done to achieve the organizational purpose. Some think of this process as the wielding of a whip: "Do as I say, or else. . . ." In this case the "or else" means "or else I will prevent you from satisfying your needs." These managers did not disappear with the era of the notorious "industrial pirates." They are still with us in large numbers. They are among those who believe that a fair degree of unemployment is essential for good industrial relations. Fear, they argue, makes people docile.

Other managers think of the process as the offering of a bribe: "Do as I say because I am good to you." This we call paternalism. It is not dead either, although the term is currently in disrepute. It is based on the conception that gratitude makes people docile. Basically this is but a variant of the "whip" philosophy. If the bribe fails, as it usually does sooner or later, the "or else" comes immediately into view. The cold fury of the paternalist whose benefactions have not been appreciated is a striking but frequent phenomenon.

There are many managers today who believe they can make people work toward the organizational purpose by being "fair but firm." This is an obvious compromise between the philosophy of the whip and that of the bribe.

The continued existence of this conception is a pertinent illustration of our failure as psychologists to coordinate "disassociated facts." The facts of learning experiments do not suggest that there is any important difference in the relative effectiveness of reward and punishment as motivators. There is an indication that under some circumstances punishment may be more effective in the short run, reward in the long run. Generally we treat them as equivalent.

However, the facts of experiments on the consequences of frustration, some of the clinical facts of family relationships, facts emerging from studies of social perception, and ordinary observation all provide reason for believing that this short-run—long-run distinction is a critical one. I suspect we could demonstrate quite readily that overemphasis on punishment (implied or actual) as a means to influence behavior in a continuing relationship is virtually certain to defeat one's purpose and to destroy the health of the relationship as well.

I do not underestimate the complexities of this problem, nor the difficulties involved in achieving integration of these "disassociated facts." However, we may ask ourselves whether such facts are not actually misleading so long as they remain disassociated.

The common and significant feature of these and of most other current managerial philosophies is the idea that people must be forced somehow to work toward the organizational purpose. Personally, I believe we have plenty of psychological evidence for saying categorically that such a conception of human motivation is unsound. *If one expects to continue a relationship with people, it is not worth while to try to* make *them do anything.* Granting the many qualifications that surround it, the frustration-aggression hypothesis is a sound working principle in human relations. Apathy or hostility, in their limited manifestations, are virtually inevitable consequences for the manager who seeks to *make* people do his bidding. And the further consequence of either is defeat in some measure of the organizational purpose.

The manager who conceives his task to be to create conditions such that the members of the organization will *want* to direct their efforts toward the organizational purpose is indeed a rare individual in my experience. Yet it would seem that this is exactly the way to achieve successful organized human effort if it is true that the employment relation involves important needs, if it is true that all human behavior is directed toward need satisfaction, and if the frustration-aggression hypothesis is broadly valid.

Perhaps you will grant for the moment that if successful organized human effort in industry is to be achieved, management must create conditions such that people will want to work toward the organizational objective. If you will, it may be profitable to consider what one or two of these conditions might be.

CREATING CONFIDENCE

At the head of my list of such conditions is what may be called "confidence." By confidence I mean the genuine emotional conviction that one will be able reasonably to satisfy one's needs through this employment relationship. Confidence does not rest on guarantees or certainties; it is the belief merely that one will "get the best possible break" from those who control one's destiny in the organization.

This characteristic is, I believe, the first essential for the success of any human relationship. It is especially important when one group controls means for satisfying basic needs of other groups

in the relationship. In a free-enterprise economy, managers control jobs, and jobs to those whom they employ are vital means for need satisfaction. If people are occupied with the attempt to satisfy their needs and if the employment relation is the source of means for satisfying critical needs, their first consideration must necessarily be "What kind of breaks can I expect from my employer?"

Confidence is difficult to achieve, particularly in large organizations. Much has been written about it, although rarely under this name. Many of the "disassociated facts" of industrial relations studies relate to it in one way or another. Consider, for example, why good communication is considered so essential within industrial organizations. Consider why so much stress is put on the careful formulation, publication and administration of personnel policies. Why is emphasis put on advance notice to employees of changes affecting their welfare? Why must promotions and wage increases on a merit basis be so carefully administered, and why are elaborate seniority provisions usually in force when these policies have not been well administered? Why is the strategy of "cards-face-up-on-the-table" rather than legalistic subterfuge urged in union negotiation and grievance administration? One major reason for the importance of such things as these is that they affect directly the confidence of employees in their management.

The absence of confidence is appallingly evident at all levels in many industrial organizations today. If employees genuinely expected "the best break possible" from management, would restriction of output be so prevalent, would militant and hostile unions flourish so well, would bitter strikes occur so frequently, would union negotiations be conducted in an atmosphere of so much suspicion, would arbitration be so often required? I think not.

It is not until one explores some of the "disassociated facts" of clinical psychology and psychiatry that the true significance of the employment relationship becomes apparent. It is a surrogate for, a modified continuation of the child-parent relationship, with much of the deep emotional ambivalence which characterizes that primary relation. Because it is modified, and because people usually do not recognize its real emotional significance to them, hostilities are more easily aroused and expressed. This makes still more critical the existence of genuine confidence. Without it successful human relations in industry are completely impossible.

A couple of years ago I talked with the top management of a large company that had a remarkable change in the character of its industrial relations. Formerly this firm had been noted for conflictual relations in an industry that was itself anything but successful along these lines. Yet in the space of about a year-and-a-half this situation had improved almost unbelievably. Hostile and dictatorial labor leaders had been ousted by an aroused rank and file, grievances had dropped to a fraction of their former frequency, productivity had increased, relations had become almost idyllic.

The story these managers told was simple. In desperation over the mess they had on their hands, they decided to make an honest, all-out attempt to act sincerely and openly on all matters affecting their employees. They began to publish the exact facts on important grievances even when management was clearly in the wrong. They used every means at their disposal to convince all levels of management, and through them the workers, of their genuine desire to give their employees "the best possible break."

There were no important economic changes, shifts in the political complex of the international union, or other external factors affecting this situation during this period. This management told me, in a somewhat dazed fashion, that, as far as they could see, this single important change in their approach (implemented, of course, in a great many ways) was the only possible cause of the remarkable change in their relationship. For me, as you can guess, the explanation was obvious: They had succeeded in restoring their employees' confidence in them.

But confidence, although it is essential, is not enough. By itself it will not necessarily create a situation in which people will work toward the organizational purpose. They may be happy, but they will not necessarily be motivated to work.

SATISFYING PERSONAL NEEDS

A second essential, and I think equally obvious, condition is that efforts directed toward the organizational goal must be directly associated with the satisfaction of personal needs. Here we encounter several curious phenomena. I will mention but one: Practically all the means for need-satisfaction that workers today obtain from their employment can be utilized *only after they leave their jobs*. Wages cannot be used to satisfy needs at work. Neither can vacations,

The conception that the function of management in the employment relationship is to *make* people work is psychologically unsound.

insurance benefits, pensions, recreational facilities, nor most of the other benefits provided by employers.

This odd fact, along with increasing mechanization and the resultant deskilling of industrial jobs, has an unfortunate result: Work becomes a form of punishment to be endured for the sake of need-satisfactions obtained outside of the work situation.

Work can be fun, as we all know. However, modern industrial practices tend more and more to rob it of the creative, egoistic and social satisfactions that could make it satisfying in itself. And, what is more important, many managers consider this to be right and proper. I remember a plant superintendent who objected strenuously to the inclusion of a sentence in an employee handbook because it contained reference to the things "which make work fun." He stated flatly that work is not fun and people should not be encouraged to think it is.

Does this phenomenon reflect the Biblical story of Adam and Eve's punishment: Henceforth they would be required to get their food and raiment by the sweat of their brows? Is it a hangover of the Puritan conviction that fun is sinful? I don't know. But I do know that the purpose of industrial organizations will never be particularly well achieved if the members of those organizations are encouraged to regard their work as a form of punishment.

DILUTING PARTICIPATION

To create the situation where work is itself genuinely satisfying, quite apart from the delayed rewards it provides, requires drastic revision of many managerial policies. It requires above all a sufficient change in management's conception of the employment relationship and of its own prerogatives to permit the development of genuine consultative supervision at every level of the organization. Unless one appreciates the "parental surrogate" character of the employment relationship, management's wariness with respect to this change will come as a surprise. Every rationalization and every side-stepping technique in the book are used to dilute the participation of workers, and even of lower and middle management, in the process of solving the real problems of the enterprise. The usual "suggestion system" is a good example of such dilution. So are most "joint committees." Yet genuine participation, to the point of deep emotional involvement of all members of the organization, is about the only source of satisfaction in the industrial setting for a considerable number of powerful human needs. Among these are needs for achievement, knowledge, prestige, creative activity, group approval, and power.

To make work itself genuinely satisfying may require also a considerable modification of the engineer's conception of efficiency. It is difficult to get him to recognize that there may be a difference between the most technically efficient method and the method that best achieves the organizational purpose. Engineering analyses and predictions of cost reduction are apt to be misleading in this respect. I could cite some dramatic situations where greater productivity at lower cost has been the result of a compromise with technical efficiency because the technically efficient method removed too much human satisfaction from work. In plant layout, process engineering, time - and - motion study, organizational planning, machine design, and many other phases of management, we would do well to ponder Chester Barnard's distinction between efficiency and effectiveness.

In this same connection I have wondered a good deal whether the time honored practice of relating individual wages to individual performance is as effective as we think it is—even at management levels. Certainly there is beginning to be a body of evidence, some of it developed by the work of my former colleague, Joseph Scanlon, at the Massachusetts Institute of Technology, that a properly formulated, cooperative "cost-reduction sharing plan" can accomplish remarkable results. Examination of some of the "disassociated facts" in the psychological literature of competition and cooperation, as well as direct observation in industrial plants, might lead one to expect something of the kind.

Although it is bromidic today to state that wages are not the only incentive for human effort, I wonder if industry has really even begun to utilize the other possible incentives? Not that money is unimportant. It is the means for satisfying a great variety of vital needs. What is more, Scanlon's work suggests that we haven't given nearly enough study to the problem of the most effective use of financial incentives themselves.

INDIVIDUAL EVALUATION?

Wage and salary administration consists customarily in a double process: (1) determining the worth of the job or position, and (2) determining the contribution of the individual and rewarding him accordingly. It is this second phase of wage and salary administration that I think needs critical reexamination.

In the first place, despite our elaborately conceived techniques for evaluating individual performance, are we able to do a sufficiently accurate job to justify the minute differentiations that are customarily made? I strongly suspect not. In the second place, and much more importantly, have we recognized the actual consequences of even the best administered program of individual evaluation for wage purposes on the people evaluated? Does the process, as we so logically and casually assume, increase the efforts of the individual toward the organizational purpose? Or does it, more often than not, create resentments and protective behavior that may lower the individual's value as well as his morale? Does it build team-work and sincere cooperation, or does it undermine them? To cite but a simple illustration: What are the results for the individual, of an evaluation of mediocrity, and no wage increase, therefore, when he is an employee of twenty or twenty-five years' service who is no longer at his peak but whose loyalty and conscientiousness (before the evaluation at least) are beyond question?

What would happen, do you suppose, if we ceased to use performance evaluations as a basis for individual wage adjustment—if, in fact, we ceased to relate individual performance with individual wages except as base rates were set by some form of *job* evaluation? Performance evaluations would be used, if at all, to measure growth and development, with the motivation for these derived from other aspects of the employment relationship. Where necessary, performance evaluations might be used to terminate employment. Additional financial rewards would be correlated with an over-all organization measure of the degree to which the purpose of the enterprise was being achieved and

be paid at frequent intervals as a percentage—*equal for all employees*—of base wages.

I know of plants in which such a scheme has doubled and trebled the results previously obtained under the usual individual wage incentive plans. Moreover, in several of those plants management members and office workers share in the financial rewards on an equal percentage basis with factory workers. It is an eye opener to watch the handling, *by employees rather than management,* of the shirker in these situations. It is equally impressive to see the development of emotional involvement in the organizational purpose and the striking spirit of cooperation manifested at all levels even when economic conditions threaten severe frustration. Only direct observation of such situations can convey how remarkably untypical they are in the quality of their human relations. Remember, the common objective of the members of these organizations *is* the production of goods and services at a profit. Moreover, they are achieving it.

Of course there are definite techniques utilized in these plants to provide opportunities for the satisfaction of those social and egoistic needs that are normally frustrated in the industrial situation, and to tie those satisfactions to the achievement of the economic purpose of the enterprise. The important fact for my immediate point is that individual performance is not measured. The measure of performance is the degree to which the organizational goal is achieved by the whole organization. It has become a common purpose for the members because its achievement means the satisfaction of a great variety of personal needs, including those money can satisfy.

Perhaps I have wandered too far afield. However, this question of financial incentives is encumbered with a host of traditions. Many of them are the outgrowth of implicit assumptions about human behavior that could stand critical examination. Moreover, it is a subject with which an adequate theory of organized human effort must inevitably treat.

Let me try now to summarize. Our free-enterprise economy is under fire today. It is more than possible that the occurrence of another major depression could lead to its abandonment in favor of another type of economy. But it is an open question whether the ills of the free-enterprise system are in large part the result of our failure to deal successfully with the problems of human relations within that system. Such problems, or related ones, might conceivably wreck *any* economic system.

The "disassociated facts" that comprise the field of industrial relations today cannot provide us with an answer to that question or with solutions to those problems. We require an integrated theory of organized human effort in industry. In its absence we may perpetuate philosophies, policies, and practices that are actually inimical to sound human relations and to the achievement of the economic purpose of the enterprise.

Some of the current problems of human relations in industry are the consequence of the psychologically unsound conception that the function of management in the employment relationship is to *make* people work toward the purpose of producing and selling goods or services at a profit. An integrated theory of organized human effort would demonstrate that this conception is inconsistent with the facts of human motivation in relationships and that it ignores the implications of the frustration-aggression hypothesis. It would stress the soundness of creating conditions such that people would *want* to achieve the organizational purpose rather than trying to *make* them do so.

Such a theory would indicate the fundamental importance of employee confidence in management. It would reexamine critically the whole question of incentives, with particular attention to those important needs that may be satisfied directly in the work situation. It would perhaps question the emphasis customarily placed upon the relationship between individual performance and individual financial rewards. It might outline some hitherto ignored conditions for cooperation and question some of the supposed consequences of certain kinds of individual competition.

There are two other aspects of this subject. First, what would we do with a theory such as I am proposing if we had it? Its mere existence would not change the world much. The whole difficult subject of the role of the expert, of the pros and cons of "manipulation" of human behavior, is involved here.

Second, psychologists need to learn themselves how to function successfully in organized groups that include representatives of many other disciplines. The theory I am asking for will necessarily involve collaboration and conflictual "accommodation"—to borrow Clark Kerr's term—among all the social sciences.

I have mentioned some of *my* conceptions. Frankly, I am not too concerned as to whether other psychologists agree with my ideas. I *am* eager to have all social scientists who work in the field of industrial relations devote a significant amount of time and energy to the development of a valid theory of organized human effort, and to experiments that will test its major hypotheses. That is a challenge worthy of the best in us.

Modern Industry Award

The *Modern Industry* Award of $1,000 will be presented in 1950 to the Chapter of the Society for Advancement of Management which, in the opinion of the judges, has completed the most valuable Chapter project during the current year.

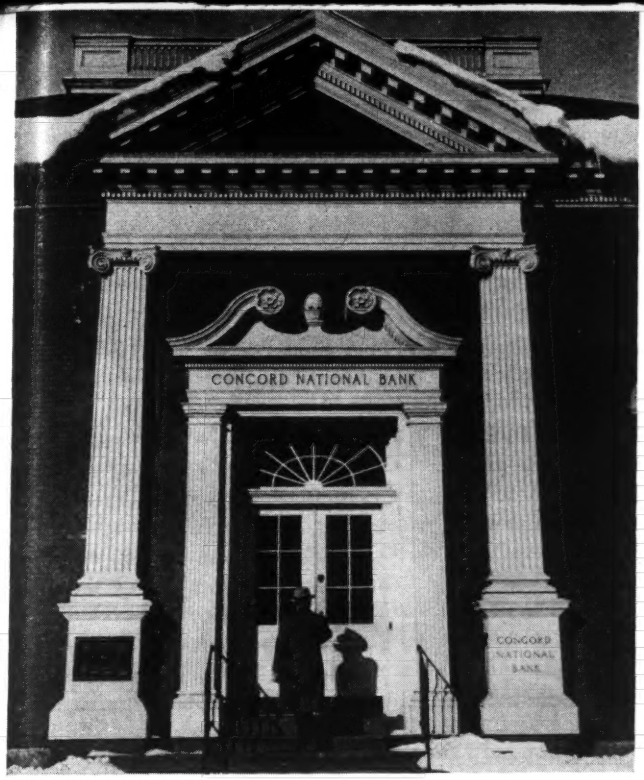
The project must, either

(1) Add new, useful knowledge on scientific management, or advance the art and practice of management in the area served by the Chapter, or

(2) Advance public understanding of the creative and constructive role of scientific management in modern society.

The award, which is offered by Eldridge Haynes, publisher of *Modern Industry,* is to be used in the development and implementation of another project which will further the advancement of the science of management and its applications in the area served by that Chapter.

The award will be presented at the Society's annual meeting, next fall. Project rules will be announced in a more detailed story next month.



Jobs and Taxes

By EMIL SCHRAM
President, New York Stock Exchange
in collaboration with
FRANKLIN COLE & CO., Economic Consultants

There is a new development in American economic life — the search for individual security. There is today the paradoxical situation of a large volume of individual saving and a growing scarcity of venture funds flowing into productive enterprise.

AMERICA, in her new position as the major political and economic balance wheel of the democratic world, has responsibilities which are unparalleled in modern history. How adequately we measure up to our new destiny depends in large measure on our ability to maintain a stable, highly productive, and ever progressive economy.

We have been moving in high gear since the end of the war. The backlog of consumer demand resulting from wartime shortages, our large expenditures for national defense and foreign assistance, and the sizable investments made by industry in new plant and equipment are the stimulants that induced the high-level activity we witnessed after the war. We set new records in national income, in numbers of people productively employed, and in physical volume of output in peacetime, and it is only in recent months that these measures of our economic well-being have showed signs of retreating to less favorable levels.

THE ECONOMIC FABRIC

We cannot, under present circumstances, afford a period of economic stagnation and low level of investment in capital goods such as we experienced in the thirties. Nations whose political and economic philosophy is inimical to our own are virtually looking over our shoulder to discover signs of weakness in our national household, for they know the propaganda value of any rifts in our economic fabric. We must prove by our performance that our economic system based on individual freedom of thought and action can provide all groups in the community with jobs, security and a high standard of living. In this way we will confound our enemies and give encouragement to those who look to us for precept and example.

The fact that taxes are absorbing about one-quarter of the national income makes their economic effect a matter of primary concern. Our economic vitality and progress depend now, as they always have, on a generous supply of venture or equity funds flowing readily into productive enterprises. Features of our tax system which unduly restrict the supply of venture capital and discourage risk-taking must be seriously re-examined and corrected.

VENTURE CAPITAL

An adequate supply of venture capital is essential if we are to improve our standard of living and increase our national strength. Without it our economic machine will cease to expand and will be unable to provide the new job opportunities that our rapidly growing labor force demands. Venture capital also makes possible the development of new products, affords the means to finance the adoption of new industrial techniques that increase the productivity of labor, and keeps alive competition — a spur to efficiency and lower prices.

The fact that the venture capital position of this country has been suffering progressive deterioration in recent years has been clearly reflected in the thin and depressed equity capital markets and in other ways. The large postwar modernization and expansion programs we have witnessed do not prove the existence of an ample and dependable supply of venture capital for future industrial growth. The funds for financing postwar expansion have come largely from (1) liquid assets accumulated by business firms during the war, (2) earnings retained out of profits generated during a period of record prosperity and (3) borrowed money.

Since the liquid assets of business have been reduced to the point where they bear about the same relation to sales as in prewar years, we cannot look to them as a continuing source of capital funds. Retained earnings cannot be expected to be adequate to our needs in all future circumstances, and they do in fact fail as a source of funds in times of declining business activity when capital investment is most useful in stimulating the economy. Furthermore, retained earnings are not available for the establishment of new enterprises that are frequently the spearheads of economic advance and the guarantors of continued and healthy competition.

Finally, continued reliance on borrowed money is not to be encouraged. Capital structures heavily burdened with

debt are vulnerable to depressions, making the whole economy less able to resist cumulative downward spirals that are inevitably accompanied by mass unemployment. It is also significant that debt securities themselves become unsafe in the absence of adequate equity financing. On the other hand, if concerns with fluctuating earnings take the conservative course of refusing to incur the fixed charges that debt financing involves, they are forced to forego expansion and modernization programs when ready sources of equity capital are lacking. We must also remember that borrowed capital is not generally available to new and small undertakings unless they are already assured of considerable equity investment.

We shall be making a tragic mistake if we expect that these three sources of funds will be adequate for our future investment needs. We have already reached a point where economic expansion and progress are being inhibited by the scarcity of equity money. Some of the largest and best known firms with easiest access to the capital markets are finding equity funds so costly that they are deciding to abandon plans for further expansion. The plight of small businesses is even more serious, for they work against the additional disadvantages of being less familiar to investors and of having much higher proportional expenses for floating their smaller stock issues. Finally, we must not forget the least articulate group—people who are thwarted in their plans for establishing new businesses because they are unable to save enough from their current income after taxes or to obtain the backing of people who are willing to risk their savings.

We are faced today with the almost paradoxical fact that we have a large volume of individual saving and at the same time a growing scarcity of venture funds flowing into productive enterprise. Two basic developments that have occurred in our economy in recent decades are responsible for drying up the stream of risk capital.

One of these developments is the increasing preference on the part of many people for security as opposed to risk. This fundamental change in attitude is reflected in the larger share of individual savings now going into insurance, savings accounts, governmental securities and similar relatively riskless investments. The search for individual security is not, of course, a phenomenon peculiar to the United States. It is observable in most parts of the modern world, and it has fostered, and has in turn been fostered by, increased governmental intervention in economic affairs.

INDIVIDUAL SECURITY

No one should deny that security for the individual is a desirable aim or that governmental action at many points is necessary to protect individuals against the frequently harsh operation of the competitive economy. Through unemployment compensation, old age and survivors' insurance, and similar programs, a large section of our population has been given a measure of protection, and, as soon as our governmental finances permit, the scope and coverage of our security programs should be expanded so that no one need fear insecurity resulting from factors beyond his control. We must always remember, however, that the search for more and more complete security inevitably inhibits economic change and progress, and we must not carry the quest for security so far that it depresses the standard of living in America as it already has done in some European countries.

The second major fact to be considered in connection with the equity capital problem is that a continually growing share of the national income has been passing through the hands of the Federal Treasury during the past twenty years. The heavy total tax burden of recent years has greatly accentuated the structural defects of our existing tax system. It is our contention that since taxes will probably be high as long as world conditions remain disturbed, every possible effort should be made to correct those features of the tax system that are discouraging independence, newness, growth, and competitive vigor.

Restriction of capital slows down research, dynamo of industrial progress.

RECOMMENDATIONS ON TAXES

We offer the following recommendations on tax policy:

1. Make a start in eliminating the unjust double taxation of dividend income by allowing individuals to take a credit equal to 10 percent of their dividends on common stocks when computing their income tax liability.
2. Revise the treatment of capital gains and losses by reducing the tax rate on long-term gains to 10 percent, increasing to $5,000 the amount by which capital losses can be offset against ordinary income each year, and shortening the holding period to three months.

These recommendations are made with the object of reducing existing tax impediments to the creation and flow of venture capital that make it difficult for industry to increase the efficiency of labor and provide more job opportunities. They are based on the foregoing analysis of the way in which certain features of our tax structure are restricting the dynamic elements in our economy to an extent that we cannot afford in the present critical period. They are not made on the assumption that federal budgets can be reduced materially in the near future, however desirable that prospect might be. Neither are they offered as suggestions for increasing total tax yields, although we believe they would in the main have that effect.

During recent years, various plans have been advanced to eliminate or at least alleviate the double taxation of dividends that was made complete by the Revenue Act of 1936. Many of the proposed plans aim at integration of business and personal income taxes. There is no doubt that full integration is the best solution to the problem of dividend taxation, and in the words of Professor Groves of the University of Wisconsin, "No phase of taxation offers more opportunity for gain in both equity and non-repressiveness than the integration of corporate and personal income taxes."

We do not believe, however, that the pressing need for placing dividend taxation on a more rational basis and revitalizing our capital markets can be deferred until such time as we are prepared to make the basic revisions in our tax structure that a thorough-going integration plan would involve.

A limited tax credit to individual taxpayers for dividend income is, on the other hand, a ready method of partially eliminating a serious tax injustice and encouraging equity investment. This approach involves essentially a return to the tax treatment accorded dividends in the United States between 1918 and 1936. The 10 percent tax credit for dividend income recently adopted in Canada represents a similar approach to the problem. The simplicity and directness of such plans have brought them to the forefront of attention in recent years.

We urge the immediate revision of the law to permit individuals to deduct from their income tax liability an amount equal to 10 percent of the dividends they have received on common stocks. This measure would have the effect of reducing the tax rate on dividend income by 10 percentage points for all income groups. People in the lower income tax brackets would enjoy the larger proportional reduction in the rate of tax paid on dividend income. In the lowest bracket, where combined normal and surtaxes take nearly 20 percent of additions to income, the tax on dividends received would be cut in half.

The adoption of this plan would not be unrealistic from the point of view of federal revenues. In 1948, a record year, dividend distributions in the United States totalled $7.8 billion. It is estimated that about 10 percent of the total represented dividends on preferred stock. For instance, common stocks listed on the New York Stock Exchange paid dividends of $3,806 million in 1948; preferred stocks listed on the Exchange paid $414 million. The ratio of preferred to total dividend distributions was thus 9.8 percent. It is also estimated that another 15 percent represented intercorporate dividends and dividends going to institutions and individuals not subject to income taxation. Common stock dividends subject to the personal income tax thus were probably about $6 billion. If we allow individuals to reduce their tax liability by a sum equal to 10 percent of their common stock dividends, the maximum reduction in federal tax receipts would be approximately $600 million. It should also be pointed out that possibly there would be no loss of revenue because the tax credit would tend to increase the amount of taxable income at the personal level by encouraging larger dividend distributions.

The combined high corporate and high personal taxes levied on distributed corporate income leave little incentive for present-day savers or for those holding savings accumulated in the past to invest in common stocks. Our suggestion for attacking the problem of the unjust and burdensome double taxation of dividend income could be put into effect quickly and with a minimum of administrative disturbance. It would stimulate equity investment right now when it must be stimulated if industry is to continue to grow in step with our increasing labor force.

We would make the further recommendation that in subsequent years the amount of the tax credit be increased, so that we will be moving in the direction of the complete integration of corporate and personal income taxes that we suggested previously as a desirable ultimate goal.

CAPITAL GAINS TAXATION

The risk of incurring losses in enterprise is inherent in any type of economic system unless the members of the economy are willing to sacrifice change and progress. Since we are neither willing to accept nor able to afford economic stagnation in America, we cannot eliminate the risks of enterprise, and it is, therefore, particularly important that we reduce the present tax bias against risk-taking.

Our earlier discussion led us to the conclusion that the present tax treatment of capital gains and losses is seriously discouraging risk-taking. People decide to invest in enterprise only after they weigh the considerations in a sort of mental balance. Into one side goes the positive factor, the possible gains to be made; into the other goes the negative factor, the likelihood of suffering a loss. Investments are made only if people with available funds feel that the positive factor outweighs the negative. Two changes in capital gains taxes would do much to redress the balance and make potential investors more willing to participate in risky ventures than they are under the present one-sided system which taxes gains heavily and allows only restricted loss offsets. One approach is to liberalize loss allowances, the other is to reduce the rate of taxation on capital gains. We strongly recommend action in both directions.

It is not enough that capital losses can be offset against capital gains. An individual investor may have no gain at all against which to cancel realized losses. If, on the other hand, he has participated in successful ventures as well as unsuccessful ones, he may find it difficult or unwise to sell his interests at a particular time merely to establish offsetting gains. The present additional provision that allows losses to be offset against $1,000 of ordinary income in the year they occur and in each of five subsequent years is also insufficient. Even after six years, the taxpayer who suffered a large loss can offset a total of only $6,000 against ordinary income. This represents, in effect, $12,000 of long-term capital loss, a much less significant sum than it was in 1942 when the present tax provisions were adopted. We recommend that the extent to which losses can be offset against ordinary income should be increased to $5,000 for the year in which losses occur and an equal amount in each of the carryover years. A liberalization of loss allowances would do a great deal to remove one of the most serious tax impediments to our industrial development and growth. It would be of especial help in the uncertain days ahead as business becomes increasingly competitive and the hazards of enterprise become accentuated. Sumner Slichter has proposed permitting losses to be offset against ordinary income when they occur, limiting the amount so offset to 50 percent of an individual's total tax liability or to $100,000, whichever is smaller. We agree with Professor Slichter that this would help reduce the tendency of taxes to discourage new investment in uncertain periods, and we think his suggestion should be given consideration as soon as the federal budget position permits.

Looking at the other side of the balance, risk-taking would also be encouraged by a reduction in the capital gains tax rate. Such a move would, of course,

increase the possible reward an investor could hope to realize from participation in any given venture and hence would make all investment opportunities appear more attractive. We recommend the adoption at the present time of a flat rate of 10 percent for long-term capital gains. The maximum effective rate was raised to the present 25 percent by the Revenue Act of 1942. The maximum rates then in effect had been adopted in 1938 and were 15 percent on gains from assets held over two years and 20 percent on gains from assets held from eighteen to twenty-four months.

DIFFERENT CONDITIONS

The 1942 Act was the first revenue act of the World War II period. It made drastic increases in taxes on wages and other determinable income, and it was felt by the Ways and Means Committee to be "only proper that some additional tax should be derived in this emergency from capital gains." We are faced in 1949 with an entirely different set of conditions and a different kind of emergency. Our problem now is not to collect as much as possible in taxes in order to combat wartime inflationary pressures; we must now think in terms of stimulating risk investment so that our economy will retain its vigor.

Taxes on realized long-term capital gains under present provisions of the law range from approximately 10 percent when the taxpayer is in the lowest taxable income bracket to a maximum of 25 percent. If a flat rate of 10 percent is substituted for the present arrangement, not only would the flow of venture capital be stimulated but the sale of appreciated assets would be encouraged and less injustice would be done to people who have had purely illusory gains that merely reflect the general inflationary trend of recent years.

We make the further recommendation that the time during which assets must be held before a realized appreciation is taxed as long-term capital gain be shortened from the present period of six months to three months. The knowledge that any gain from an investment held less than six months will be taxed at the high income tax rates now in effect discourages investors from taking risks, especially at a time like the present when even the near future is so unpredictable. Under present conditions, a holding period of three months would be a more logical dividing line between trading and investment than the longer period.

We firmly believe that the above recommended changes in the treatment of capital gains and losses would not cause any diminution in federal revenues and that they would in fact soon increase the flow of revenue into the Treasury. The more liberal treatment of losses, while it would involve some immediate sacrifice of revenue, would ultimately result in increased income and other tax receipts because of the stimulus it would give to enterprise. The lower rate on capital gains and shorter holding period would encourage the owners of appreciated assets to sell and realize their gains. Capital gains, differing from income which flows in a steady stream, are realized only at the option of taxpayers.

In 1942, the Ways and Means Committee of the House of Representatives recognized the special nature of capital gains, and it declared that "since the realization of a capital gain is solely a matter within the discretion of the taxpayer, a too high capital-gain tax will lose rather than gain revenue for the Government." Although the committee approved the increase in the maximum effective rate on long-term capital gains to the present 25 percent level, it did so on the assumption that the increased rate was not so high that it would "retard capital transactions." There has been a great appreciation in the value of tangible capital assets and a lesser appreciation in security prices over prewar years, and we are convinced that the high tax rate has now become a serious barrier to the sale of such assets and deprives the Treasury of considerable amounts of potential revenue.

We must stay continually alert to the danger of tax policies that discourage the risk-taking inherent in enterprise and cause both new savings and existing pools of funds to take shelter in "safe" investments. Unfortunately, a drying up of the supply of venture capital is not generally accompanied by spectacular danger signals of the sort that arouse people to action. The resulting deterioration in national productivity and living standards is not immediate or dramatic but comes slowly and almost imperceptibly, and there is no specific way to compare the performance of the economy with what it might have been if investment had not been impeded. In fact, one of the ironical consequences of governmental policies that result in shutting off the flow of equity funds is to make it appear that the government itself is the only source of capital, jobs, and the spirit of enterprise. We hold firmly to the position that the surest road to economic progress is through the time-tested American system of private enterprise and that our system is more compatible with freedom of individual action and democracy than any other. We are equally convinced that we must give that system a fair chance to survive and prosper by mitigating the handicaps which certain features of our tax laws place upon it and which threaten to destroy the sources of its vitality.

The nearly one and a half million young people who have completed their education this year are entitled to an opportunity to make themselves useful citizens, contributing through their own efforts to raising their living standards over those of the preceding generation. Their first requisite is a job. Private industry can be relied on to provide an ever-increasing number of jobs and the tools necessary for such jobs when tax laws permit the necessary venture savings to be formed and encourage their constructive use. The proposals we have made in this report, if adopted promptly, could provide the stimulus for an era of economic growth and individual economic progress even greater than any we have thus far achieved.

Conferences to Come

MANAGEMENT AND PERSONNEL CONFERENCE

Chicago Chapter, S.A.M.

"Reducing Operating Costs"

Northwestern University
(Chicago Campus)

Feb. 2, 3, 4, 1950

FIFTH ANNUAL S.A.M. TIME STUDY AND METHODS CONFERENCE

Hotel Statler, New York

April 20, 21, 1950

What Is the I. L. O.?

By W. L. McGRATH
President, The Williamson Heater Company
Cincinnati, Ohio

The author reports on the activity of an international labor agency—inspiring and otherwise, and asks if it is within Constitutional intent to permit legislation of labor statutes by treaty.

LAST June, at the invitation of the United States Chamber of Commerce and the National Association of Manufacturers, I attended the 32d International Labor Conference of the International Labor Organization as one of seven advisers to my good friend, Charles P. McCormick, President of McCormick and Company, who represented the employers of the United States at the Conference.

Up until that time I had given little thought to the International Labor Organization. I knew that there was such a thing, but I had assumed, like a lot of American business men, that it was simply a meeting where labor leaders from different countries got together and exchanged theories. Actually, the I.L.O. is an international body having an official standing with the Governments of most of the countries of the world. It was established following the first World War as an offshoot of the League of Nations, and its organization was outlined in the Treaty of Versailles.

The Organization was set up in the expectation that by this medium of interchange of ideas, better working standards and practices could be developed throughout the world. The United States did not take an active part in the Organization at that time, but has participated in the annual conferences since 1933.

After World War II, the Organization became an agency of United Nations. So the International Labor Conference is not just a meeting of labor leaders. It is literally a Conference of nations. Each participating nation has four representatives; two representing Government, one representing labor, and one representing employers.

For the 1949 session, the United States Delegates were Senator Herbert R. O'Conor and Philip M. Kaiser of the Department of Labor, representing Government; George P. Delaney, of the American Federation of Labor, representing labor, and Charles P. McCormick, President of McCormick and Company, representing employers.

The work of the Conference consists of formulating suggested laws or recommendations designed to protect the workers' rights, raise their standards, improve their working conditions, make immigration of workers easier, etc. It then endeavors to have these laws or recommendations adopted in the various member countries.

At this Summer's Conference 50 nations were represented, and most of the delegates brought advisers with them. The total number of delegates and advisers was 541.

The sessions were held in the Palais des Nations at Geneva, one of the most beautiful and modern buildings in the world. Every seat in this great hall is wired and equipped with hearing instruments for each member so that simultaneous translation can be made instantaneously in all of the languages approved for official use.

Most of the actual work was done by tripartite committees. The agenda of the Conference was worked out in advance in the I.L.O.'s permanent office in Geneva, where there is a staff of several hundred people. After preliminary discussion in the Conference, each subject was then referred to a committee, on which were representatives of Government, labor, and employers. After it was debated in committee, and some sort of agreement reached, it went back for debate and final decision before the full Conference.

AN INSPIRING GROUP

It was most inspiring to me to watch this Conference function. Here were people of all nationalities, religions, traditions, trying earnestly together to reach agreement on a common cause. There were some zealots in the group, of course, and some no doubt grinding political axes—but on the whole, I think most of the people were sincere men and women, trying honestly to do a job. While many of their ideas and theories differed greatly from my own and those of most Americans, I nevertheless was impressed by the fact that here were people from most of the countries of the world trying to arrive at some sort of mutual understanding *by discussion and debate*. I think this indicates the pattern to be followed if, some day, we hope to have world peace.

A FOREIGN PHILOSOPHY

On that score, the Conference was a very encouraging experience. But on that score only—for as the discussions continued, it became more and more apparent that the thinking of most of the delegates was absolutely foreign to the spirit and the philosophy of the United States and our system of free enterprise and opportunity.

Most of these men were thinking in terms of State Socialism or Government regimentation.

Russia was not represented officially; but unofficially, Russia was represented by Poland and Czechoslovakia. Many left-wing ideas were brought forth. However, the Communists were much in the minority. The delegates thinking in terms of State Socialism, or Government regimentation, were the representatives from England, the Scandinavian countries, the Central European countries, the Mediterranean countries, from Australia, from South America — in

short, from most of the nations there represented. The fact is that the United States, Switzerland and Canada are practically the only countries left in the world today with a Free Enterprise System reasonably unimpaired by State Socialism or Government dictation. The natural thinking of most of the delegates, therefore, was to the effect that people should be *made* to do so-and-so by the Government.

LABOR DELEGATES

Another disturbing angle is the fact that in practically every case the Government delegates were, to all practical purposes, labor delegates. The outcome was that, except when there was a disagreement inside the ranks of labor on a point at issue, the voting was usually 3 to 1, with the two Government and the one labor delegate standing together on one side, and the employer delegate standing alone on the other.

It is utterly impossible, therefore, for employer representatives ever to win a point. All they can do is to modify, insofar as possible, the stand taken by the Government and labor combination.

This would not be so alarming if the Conference merely issued recommendations and let it go at that. But that isn't the case. At times the Conference does issue recommendations, but its main function is to enact "Conventions," which are, in fact, model drafts of laws it wants incorporated in the statutes of member countries.

Remember, the International Labor Organization is an international body with legal standing and authority, and the Conventions it drafts are binding upon member countries to this extent: Each member country is supposed, as a part of its treaty with the other countries, to submit Conventions to its own law-making body for ratification. If approved, the Convention then becomes a part of the law of the land.

So, at Geneva, part of the time was spent in drafting new Conventions, and part of the time was spent in asking delegates from various countries: "Why hasn't your country ratified our latest Conventions?"

In theory, that may sound very harmless and rather praiseworthy. But, as I said before, most of these delegates are thinking and planning from the standpoint of State Socialism and Government regimentation — not from the

In the center foreground: Charles McCormick, U. S. Delegate, and Adviser W. L. McGrath at the Geneva Conference.

standpoint of the Free Enterprise System. Furthermore, because of the current general working agreement between Government and labor, they are thinking in terms of self-interest of labor unions. Now, how does all this affect us here in the United States?

FOR SENATE ACTION

When the International Labor Conference issues a Convention, our Department of Labor and our State Department, if they feel so inclined, may recommend to the President that the Convention be incorporated into our labor laws. The President may then, if he is so inclined, recommend such action to the Senate. The Senate may then ratify that Convention as a part of a *treaty*, by a two-thirds majority.

Thus the Convention can become part of the law of the land, *without its ever having reached the floor of the House of Representatives.* Already four such Conventions have been ratified by the U. S. Senate. Those four all have to do with working conditions of seamen on ocean-going ships. There is nothing wrong with them, and they probably set up standards that were long since exceeded in the case of American seamen—but, nevertheless, a precedent for Senate action has been set.

A number of Conventions approved last year may shortly come up for ratification; and the Labor Department is urging the ratification of the Conventions adopted this summer.

As you can see, the door is wide open to some alarming possibilities. A *majority* at an International Labor Conference might pass a Convention definitely in the category of State Socialism and completely opposed to the spirit of our system of freedom, initiative and opportunity. A labor-minded Administration and Senate, by ratifying this Convention, could then legally enforce it through governmental agency personnel. Even if the House of Representatives were opposed to it, the House would have no say in the matter.

I have looked into some legal opinions on this subject, and as nearly as I can discover, treaty provisions of this nature have the force of law so long as they do not violate the Constitution, and the question of constitutionality might not come before the Supreme Court for years after a Convention was ratified. And who knows how the Supreme Court might rule?

THE CLOSED SHOP

Lest you think I am exaggerating the possibilities, let me tell you a little about this year's Conventions and the debates concerning them. Take, for instance, the Convention on the Right to Organize and Bargain Collectively, which was adopted by the Conference. This was a definition of collective bargaining rights very similar in principle to our old Wagner Act. It gave legal protection to workers who wished to join unions but said nothing whatever about protecting the worker in his right *not* to join a union, thereby in effect legalizing the closed shop. Needless to say, our employer delegate, along with employer delegates from many other countries, voted against this Convention; but with Government and labor standing together, it was passed.

Now, what possibilities that opens up back home here in the United States! President Truman tried hard to get Congress to amend the Taft-Hartley Law, but without success. The Taft-Hartley provision protecting the right of workers *not* to join labor organizations, and State statutes outlawing the closed shop, are still in effect. But if the Administration could shepherd through the Senate a ratification of this Convention, the Administration might be able to achieve, by that means, what would, in fact, be an amendment to the Taft-Hartley Law which it was unable to get through Congress.

Another Convention adopted by the Conference was one dealing with private fee-charging employment agencies. As

originally drafted, this Convention sought to abolish such agencies entirely. This would mean, of course, that all employment agencies would have to be run by the Government. This was a direct attack on free enterprise and right down the road to State Socialism. Those of us who were opposed to it could not possibly hope to defeat this Convention, but our opposition helped to secure a modification of it. As finally adopted, it stated that private employment agencies ought either to be gradually abolished, or else regulated by the Government. That was the best we could do. This example perfectly illustrates the trend of thinking of the majority at the Conference.

RIGHT TO STRIKE

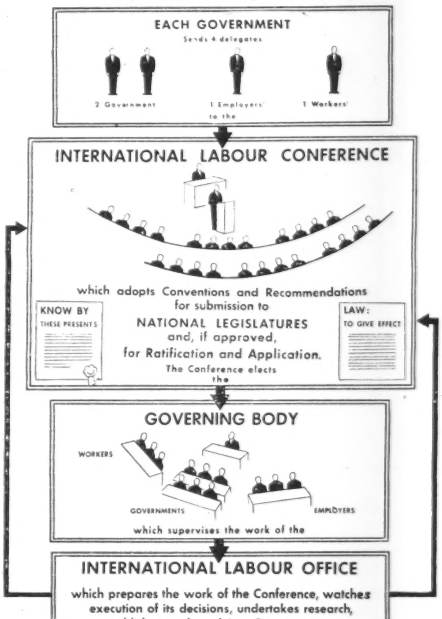
An amusing incident occurred when labor brought in a draft of a Convention designed to give Government employees the right to organize and the right to strike. Although in most cases Government representatives were lined up solidly with labor, in this case the idea that Government employees had the right to strike filled them with alarm. It was all right for somebody else's employees to strike, but not theirs. So on this Convention most of them lined up with the employer group. And Government and employer standing together were able to prevent this Convention from coming out on the floor of the Conference. But here again is an example of how this Conference is being used as a springboard for ideas foreign to the philosophy of this country.

I might add, too, that the mere publicizing of such ideas has a value for their proponents, and I am convinced that the Geneva Conference is also being used for propaganda purposes.

TWO ROADS

Now certainly some action should be taken about this situation. As I see it, there are only two roads open. One road is for the United States to withdraw entirely from the Conference. That, of course, is isolationism pure and simple, and I think the results might be unfortunate. In the first place, the world is growing too small for us to live by ourselves. Moreover, how can we go along with the United Nations and yet refuse to have anything to do with the International Labor Organization which is now a part of it?

HOW THE I.L.O. WORKS



In the second place, the International Labor Organization is a two-way street. It's quite true that it brings strange ideas from abroad to bear on our own economy, but it likewise takes the story of our economy to the people of other countries. The American Federation of Labor delegates at the Conference this summer were very effective in this respect. When the employers, because they were so much in the minority, could do little about stopping a Communistic proposal, often the American Federation of Labor people threw their strength against it and succeeded in blocking it. They attend the Conference as exponents of the highest living standards and the best working conditions enjoyed by workmen anywhere in the world. What they say carries a great deal of weight. Now, if we want the United Nations, and if we want the Marshall Plan, by which we hope to prove that our way of life is better than the other fellow's, I say we ought to stick with the International Labor Organization.

RECOMMENDATIONS

But if we are going to stick with it, I think there are two things we ought to do. We ought to strengthen our representation at the Conference. The employers' representative from our country should have as advisers a group of experts and specialists on the subjects on the agenda. This summer, Mr. McCormick, our employer delegate, had seven advisers, of which I was one—and I'm certainly no expert. I found myself head over heels in subjects on which I had done no previous research and for which my only background was that of the ordinary small manufacturer. Holding up the employers' side of an argument at that Conference requires a thorough knowledge of facts and a full measure of parliamentary and diplomatic ingenuity, and our employer delegate is entitled to the best help he can get.

I think, also, that a change might be made in the present method of appointing delegates. As matters stand now, delegates are appointed by the State Department, largely upon recommendation of the Department of Labor. It seems to me that the Department of Commerce might also participate in recommendations, and that the four delegates from the United States might properly be one from the Department of Labor, one from the Department of Commerce, one representing employees, and one representing employers.

LEGISLATION BY TREATY?

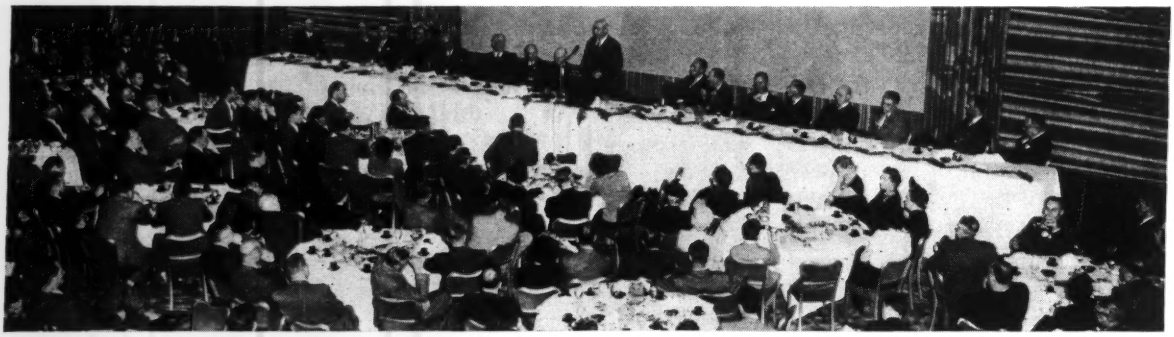
Most important of all, it seems to me, is to make a change in the method whereby I.L.O. Conference Conventions are submitted for ratification in this country. The method, as it now stands, is for the President to submit a Convention to the Senate for ratification as part of a treaty. But is it necessary to do it that way? Why couldn't a Bill incorporating its provisions be introduced in *both* the House of Representatives and the Senate? In that case, the proposed legislation would follow the normal and proper course intended by our Constitution. Certainly it seems to me that provisions of our internal law, enforceable by Federal agencies, should not be effectuated as part of a treaty with foreign nations. It's the old story that "eternal vigilance is the price of liberty."

Of course we should gladly accept good suggestions regardless of the source. But our laws should be our own — enacted in the usual way, and conceived within the framework of our system of freedom, opportunity and productivity.

If we are to *keep* working standards in America higher than those of any country in the world, we must be certain to preserve the system that has made those standards possible.

SOCIETY NEWS

S.A.M.'s 1949 awards were presented at the Annual Dinner in New York, Nov. 3. Former President Herbert Hoover, accepting the Taylor Key from S.A.M. President Dillard Bird, said, "It is always a double honor to receive the recognition of one's own profession." Federal Mediator Cyrus Ching received the Human Relations Award from Myron Clark (left).



An over-all view of the Statler's Grand Ballroom where the dinner was held. At the head table are V. Johnson, H. A. Cozzens, Jr., L. J. Dunn, E. Haynes, Mr. Clark, Mr. Ching, H. F. Smiddy, Mr Hoover, E. C. Wampler, Mr. Bird, Phil Carroll, J. K. Louden, J. A. Aldridge, C. C. James, Mr. Shaw, Mr. Kelly, R. L. Jacobs.

Gilbreth Award winner J. Keith Louden (right) receives the congratulations of John Aldridge, who, as Committee Chairman, presented the citation.

The Emerson Trophy citation was presented by T. E. Kelly (left) to Haylett Shaw, Pittsburgh President, 1948-49. Leon Dunn behind Mr. Shaw, Mr. Wampler, right.

Hiring Executives

By J. H. McQUAIG
J. H. McQuaig & Company
Toronto, Canada

Here is a method that will help keep hiring mistakes to a minimum. More care, time and skill in initial appraisal will result in the selection of better executives.

ARE you stuck with the responsibility of hiring an executive or a salesman? If so, you are probably confronted with a forceful, enthusiastic personality who gives you a strong sales talk on himself and ends up with the confident assurance that this is just the job he has been looking for. He claims he can handle the work to your complete satisfaction. Oddly enough, you feel that he can. He has clicked—you are completely sold. Here is, without question, the ideal man for the job. Consequently, you feel that the difficulties of personnel selection are highly overrated, that selection is a simple matter, provided you have the ability to size men up.

This attitude and instinctive feeling, which we all have, is the cause of most of the mistakes made in the hiring of key personnel. Psychological research has established the fact that there is absolutely no correlation between a man's appearance and his true personality. In fact, appearance, congeniality and other outer characteristics are often directly misleading as a measurement of the real man beneath the surface. Furthermore, it has been proved by scientific investigation that most people have biases or prejudices, either conscious or unconscious, which affect their ability to judge men objectively. Our like or dislike for a man on first meeting is no basis for assessing his capabilities.

But here you are, faced with a candidate for the job who has the necessary experience and training, plus the fact that you like him and you have a strong feeling that he will succeed. Still you hesitate before making a final decision. You hesitate because you have talked to the applicant for only twenty minutes. This is one of the most important decisions you will make in your business career and you realize that you should have more time to think about it. Why not? You would hesitate to invest $200,000 of the company's money after deliberating only twenty minutes, and yet this man may be a $200,000 investment over a period of time. An average salary of $4,000 per year for the next twenty-five years, plus a similar amount for his expenses, bring it to that figure! You may spend nearly $10,000 in his training alone if you hire him. Eventually, you will trust this man with the most intimate details of your business and maybe some of your personal problems. He will act for you in the most important matters and will represent you and your company everywhere he goes, both in social and business situations. He will build or destroy prestige and good will wherever he puts in an appearance. Even more important, he is an example of your choice in men. Your entire staff is wondering whom you will choose for the job and so are the boys down at the head office. If you make a mistake, it reflects on your personal judgment.

The candidate senses that he has impressed you favorably and is taking advantage of the situation. He is starting to close the deal with a little subtle pressure. He has been straightforward with you and told you about his qualifications for the job. He has seen you a couple of times regarding this particular position and now he expects you to give him an answer, "yes or no." You want to say "yes" but there are many things you would like to know about him first. However, you cannot come directly out and ask him questions like these:

"Do you get along well with your wife?"

"Do you drink excessively?"

"Will you work hard?"

If you did ask these questions, you would not get the true answers. But you have to know these things if you are to make a good decision.

There are professional consultants available who can help you. They have experience and constant practice in interviewing executives, professional men and salesmen. They also have the psychological techniques necessary to measure personality qualities. But is this man even worth the cost of professional fees? Before you spend any money, you can get more information yourself. Here are a few ideas that may be useful.

Suppose you assume, for the time being, that the applicant is unsuitable for the job. Put aside your favorable impression. Forget that he is congenial and that you feel you can get along with him. Now try and uncover evidence in his history and in his attitudes to prove whether he has the qualities you think he has. Ask him this question, "Of all the jobs you have held in the past, which one have you liked most?" He will be

Will this man make a good executive? Appearance and poise can be misleading.

startled. You have him on the defensive. He is thinking and you see him in a new light. Try this one next. "Of all the duties you have performed in the past, which ones have you liked least?" Watch this one. Is he above detail work? Does he dislike supervision? Is he inclined to be wilful and hard to handle? Now his history and attitudes begin to emerge. Before you have finished, attempt to cover all the various areas of his life, namely family, education, hobbies, work, social, economic, health, spiritual.

The following questions may be helpful in getting the facts which you need. These are suggested only as a guide to the type of questions which stimulate a man to talk and thereby reveal important information about himself.

Family

1. Have you discussed this job with your wife? What is her opinion?
2. What was your wife's occupation before marriage?
3. Has she tried to influence you in your vocational choice?
4. Was your dad strict with you when you were living at home?

Education

1. What kind of student were you at school?
2. Did you ever fail a year?
3. Where did you usually stand in your class?
4. Did you like school?

Hobbies

1. What do you do in your spare time?
2. How did you spend your evenings last week?
3. If you were not required to work for a living, how would you spend your time?
4. What kind of activities give you the greatest satisfaction?

Work

1. What duties in your past work experience have you liked most?
2. At what work do you feel you are not very good?
3. Have you ever been employed in a job which required you to work overtime?
4. Do you find it difficult to get interested in work which you do not like?

Social

1. Do you belong to any clubs or group organizations?
2. Do you entertain in your own home? How?
3. Do you think social drinking is a good thing?
4. What do you enjoy most in the way of amusement and entertainment?

Economic

1. Have you ever been in debt?
2. Do you own any fixed assets or real estate?
3. Do you have a budget for planning the spending of your salary?
4. Do you have any insurance or pension program for retirement?

Health

1. When did you last have a medical examination?
2. What is the most serious sickness you have ever had?
3. Have you ever had a nervous breakdown?
4. What is the longest time you have ever spent in a hospital?

Spiritual

1. Do you ever go to church?
2. Do you believe there is any value in religion?
3. Do you think there is any spiritual power outside the world?
4. What is your philosophy of life?

While the applicant is unfolding his life story, you can appraise his experience and past behavior under the following headings:

1. *Attitudes*

Has he any strong prejudices which could interfere with his effectiveness on the job? Has he radical opinions in politics, religion, etc., which might involve him in conflicts with others? Does he feel that he is smarter and superior to most people? Is he self-centered and ambitious to advance himself with little consideration for the feelings of his fellow workers? Will he try to get ahead by apple polishing, rather than by hard work and application to the job?

2. *Motivation*

Why has he done certain things in the past? Is he striving for wealth, prestige, power or service to others? Does he get satisfaction from a job well done? Has he a strong drive for success? If he has no dependents or has another source of income, there may be no necessity for him to succeed.

3. *Emotional Stability*

Has he been steady and consistent in his performance and in his relationships with others? Symptoms of instability may be noted in failure to complete schooling, to stick to jobs, or to maintain interest in activities or people over an extended period of time.

4. *Maturity*

Has he demonstrated the ability to be independent and stand on his own feet, to consider the feelings of others and to exercise self-control? Lack of maturity is indicated when a man shows no evidence of leadership in any activities, tends to depend on parents for financial aid beyond normal and is impulsive, irresponsible and inclined to blame others for his own inadequacies.

5. *Aptitudes*

Do his interests and activities indicate an aptitude for getting along with people and inspiring confidence in others? Will selling or supervising come naturally, or has he shown little success in group activities in the past?

If you feel that your applicant is good, then it is worth investing some money to find out more about him. An appraisal by an industrial psychologist with experience in this field provides an additional check on his suitability.

In choosing your consultant, you should investigate him in two ways:

1. Make sure he is a member of the Canadian or American Psychological Association and that he has at least a Master's degree in Psychology from a recognized university.

2. Talk to executives for whom he has done similar appraisals.

In addition to helping you decide whether to hire the man or not, the psychological appraisal will give you information on where he will work best if you do hire him. You will get an advance picture of the man's strengths, weaknesses and potentialities for the future.

Even with all these precautions, it is possible to make some mistakes in hiring. You may have a man appraised accurately today but tomorrow things could be different. However, if you follow the ideas outlined above, you will keep your hiring mistakes to the minimum. More care, time and skill in selection will help you hire better men.

Forty Years of Industrial Engineering

By GEORGE L. THUERING
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This survey tells in what fields Pennsylvania's engineering graduates are working, and how they now rate the industrial engineering curriculum.

THE first curriculum in Industrial Engineering in this country was initiated at The Pennsylvania State College in 1908. According to C. W. Lytle in the Journal of Engineering Education for June 1932:

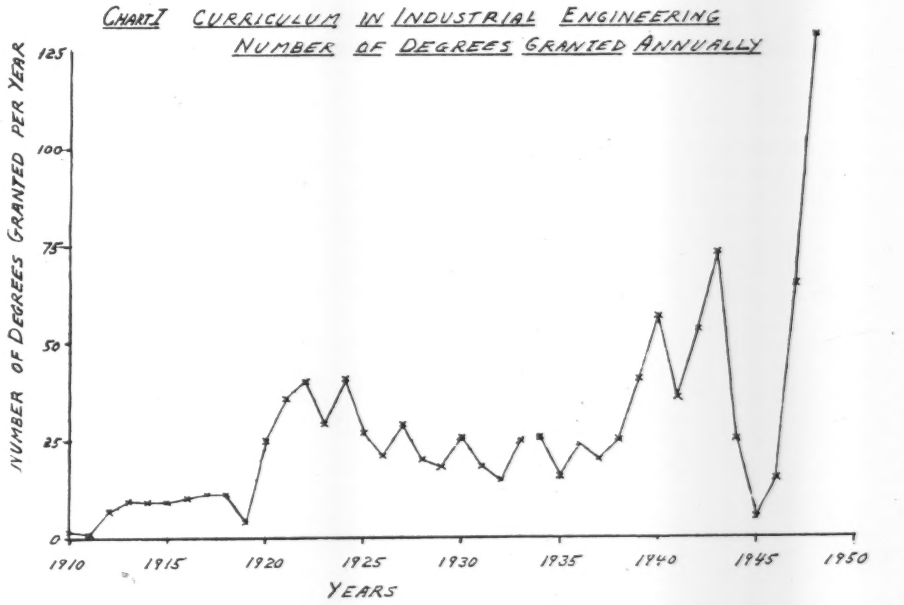
> "The earliest single course in shop management, so far as we can ascertain, was offered in 1902 at the University of Kansas and was taught by Hugo Diemer. Colonel Diemer had previously written articles on the subject for Charles B. Boing's Engineering Magazine and through these articles became acquainted with Taylor. In 1907 General Beaver, Ex-Governor of Pennsylvania and President of the Board of Trustees of The Pennsylvania State College, had a conversation with Taylor at the Union League Club of Philadelphia. Beaver told Taylor that he was looking for a man to head their Mechanical Engineering Department who could teach mechanical engineering from the standpoint of manufacturing rather than from the standpoint of power plant tests and higher mathematics. Taylor recommended Diemer and in this way Diemer became in 1908 the head of the first Industrial Engineering Department in the United States."

In 1910 the new department graduated its first two students. From 1910 through 1948 a total of 1,051 students were graduated with degrees in Industrial Engineering. Chart 1 shows the number of degrees granted annually. As one would expect, the early enrollment in Industrial Engineering was small. The graduating classes after the first two years consisted of about ten men per year until World War I. The graduating class of 1919, because of the war, dropped to three men. Immediately following the war they increased to a high of forty-one per year in 1924, and averaged about thirty-five annually for the period 1919 through 1924. This rapid growth, as the chart shows, was not normal or permanent. The large increase was probably traceable to the "Efficiency Expert" era of industrial engineering during and immediately following World War I and the resulting publicity and popularity of the field in the mind of the general public.

Following 1924 enrollment decreased, and from 1924 through 1938 an average of twenty-two students a year graduated from Industrial Engineering. The high during this period was twenty-nine in 1927 and the low was fifteen in 1933. This was a period of relative stability with no evidence of an increasing or decreasing trend.

With the graduating class of 1939, a class which started as freshmen in 1935, the period of stability ended, and a period of growth began. The trend upward was interrupted in 1944, 1945 and 1946 by the war, but under the stimulus of veteran enrollment continued upward, reaching a high of one hundred and twenty-nine graduates in 1948. No attempt has been made to determine the portion of this growth that is normal and the portion that is due to government aid to veterans and the high level of national income. It is felt that a continued high level of enrollment in the Industrial Engineering curriculum and an absence of the decrease experienced in the 1930's is indicated below.

1. The upward trend started previous to World War II. As mentioned previously, it started in 1935.
2. The number of freshmen enrolled in Industrial Engineering continues to increase as shown below. This growth continues in spite of the fact that only a small percentage of the 1951 and 1952 groups are veterans.



Date Freshman Class Will Graduate	*Size of Freshman Class*
1949	37
1950	58
1951	52
1952	101

(Data on freshman enrollment in classes just previous to 1949 are of little value. The majority of students were veterans who were admitted with advanced standing because of previous college training.)

In addition to the above increase in the size of the freshman class, large numbers of students have in the postwar period transferred to Industrial Engineering from other engineering curricula. Transfers of this type occur during the third, fourth, fifth, and sixth semesters. They have been large enough to increase the enrollment by fifty to one hundred percent in spite of the fact that students were being dropped from Industrial Engineering for poor scholarship, or were leaving for personal reasons.

There are numerous reasons for transfers of this nature, but the majority are of two types. First, the student is experiencing difficulty mastering the courses in electrical engineering or thermodynamics, after having successfully passed the basic courses in mathematics, physics and similar subjects. Since these same basic courses are a part of the Industrial Engineering curriculum, the student can transfer with very little, if any, loss of credits. No transfers to Industrial Engineering of this type are permitted unless the student has a passing average. Secondly, students who are experiencing no difficulty with their electrical, mechanical or other engineering subjects transfer to Industrial Engineering because they did not know such a curriculum existed or they feel that their interests are in the industrial rather than technical field.

There is no way of knowing if these large numbers of transfers will continue and further increase the already large freshman enrollment. Possibly the large freshman enrollment in Industrial Engineering is the result of better guidance at the high school level or better understanding and acceptance of the field of industrial engineering at the home and high school levels.

It is felt that the trend of increasing enrollment in Industrial Engineering which started in 1935 is indicative of the profession's coming of age. Industry has accepted the principles of industrial engineering and is employing industrial engineers to apply these principles. Labor unions are accepting industrial engineering, and in some instances are actually employing industrial engineers. As a result the profession is apparently being accepted and recognized by the general public. The increasing enrollment is probably the result of this acceptance.

CURRICULUM

The original curriculum in Industrial Engineering was developed, as most curricula in Industrial Engineering have been developed, by changing and modifying the then-existing Mechanical Engineering curriculum. At its inception the objective of the curriculum was practically the same as now, however, greater emphasis was placed on subjects in the field of Mechanical Engineering. As with all curricula, especially one in a field as young and which dealt with a profession that developed as rapidly as Industrial Engineering, changes and revisions have been numerous. Most of the changes have tended to decrease the Mechanical Engineering content of the curriculum and increase and/or redistribute the Industrial Engineering part of the curriculum. Other curriculum changes made in concert with other departments of the School of Engineering have strengthened the basic engineering coverage and added courses in the field of humanities.

The catalogue description of the current Industrial Engineering curriculum states that "This curriculum meets the needs of students who intend to enter industrial, commercial, or financial enterprises, essentially technical, whether public utilities or manufacturing plants, but who desire to go into the administrative departments where a scientific and engineering background is necessary. The fundamentals of engineering are supplemented by sequences of subjects essential to preparation for management such as:

1. Methods: Tool engineering, time and motion study, factory planning.
2. Cost Control: Engineering economy, cost accounting, budgetary control, and standard costs.
3. Personnel: Psychology, personnel administration, and leadership.
4. Coordination: Industrial organization and administration, and scientific management."

It should be noted that the fundamentals of engineering are supplemented by courses in management. In other words, the primary purpose is to train students in engineering fundamentals, and the secondary purpose is to train them in engineering management. A third and equally important objective is to develop well-rounded and educated graduates, not just technicians.

To accomplish the above, the curriculum in Industrial Engineering is broken down into four parts. First, Basic Engineering, which consists of mathematics, chemistry, physics, drafting, and mechanics. These are the basic, the fundamental courses. Secondly, Other Engineering, which includes thermodynamics, electrical engineering, and fluid mechanics. These courses are intended primarily to tie together and round out the basic engineering training. Thirdly, Industrial Engineering, in which the courses are the four main fields: Methods, Cost Control, Personnel, and Coordination. These courses are designed to train the student in engineering management fundamentals and to acquaint him with the tools and techniques of management, the secondary objective of the curriculum. Fourthly, Humanities, which consists of courses in English Composition, Literature, History, Economics, and Speech. This part of the curriculum is planned to meet the third objective of developing well-rounded and well educated graduates.

SURVEY

Upon the occasion of its fortieth anniversary the Department felt that it would be appropriate if it undertook a study of its graduates to determine what they are doing and how they have fared since graduation. The Department also felt that graduates, on the basis of their experience both before and after graduation, would be well qualified to evaluate the current curriculum and answer some general and specific questions concerning the curriculum.

To accomplish the above, the Department mailed questionnaires to all its graduates. In order to round out the data and obtain the views of industry, similar questionnaires were sent to 115 companies, many of which employ the graduates. The questionnaires consisted of a form letter explaining the purpose

of the survey, a data sheet to secure information on the graduate or company, a three-page questionnaire, and a curriculum sheet showing the current Industrial Engineering curriculum. All questionnaires were sent out between January 1949 and May 1949.

The balance of this article briefly summarizes the more important findings and conclusions of the survey.

FINDINGS AND CONCLUSIONS

It was possible to contact by mail 880 of the 1,051 graduates, and replies were received from 615. Percentage-wise this return represented 58.1 percent of all graduates and approximately 70 percent of those contacted. Usable replies were received from 53 or 46 percent of the 115 companies contacted. The companies ranged in size from 300 employees to over 100,000.

The survey shows that more than 70 percent of all graduates are employed in manufacturing, and 17.9 percent are in service type activities. The only significant trend by years is a decrease in the percentage of older graduates in manufacturing and a corresponding increase in the percentage in service type activities. The largest single percentage, 28 percent, are employed in the machinery manufacturing industry. The next highest percentage, 12.5 percent, are in the iron and steel industry. The balance are in a great variety of manufacturing. This tends to justify the emphasis that the curriculum and course content places on machinery type operations, but at the same time stresses the importance of teaching fundamentals. The percentage breakdown by industry of the companies replying to the questionnaire is roughly the same as that of the total for all alumni.

As was expected, classed by occupation, most of the graduates are in manufacturing (staff positions), with a fair percentage in manufacturing (line). A fairly large percentage are in sales and approximately 8 percent are in technical engineering work. A good percentage, especially among the older graduates, own their own businesses or are officers in corporations. Very small percentages are in costs, coordination and personnel. Again, the above breakdown tends to support the objective and organization of the curriculum.

A comparison of the data in this survey and similar data presented in a study of all engineers in the 1920's is interesting. ("Report of the Investigation of Engineering Education 1923-1929," Figure 2, Page 232, Volume I.) In the 1920 study it was discovered that upon graduating 71.2 percent of the technical engineering graduates (electrical, mechanical, etc.) were doing work that was primarily technical, and 28.8 percent were doing work that was primarily administrative. However, of the technical graduates with more than fifteen years' experience (fifteen to forty years experience), only 30.5 percent were doing technical work, and 69.5 percent were doing work that was primarily administrative.

If one considers, as the 1920 study did, the fields of sales, own business, manufacturing (line), and manufacturing (staff) in our survey to be primarily administrative work and the field of technical engineering to be primarily technical, the following percentages result:

	Primarily Technical Work	*Primarily Administrative Work*
1916-20	3.5%	65.5%
1921-25	11.1%	73.6%
1926-30	4.4%	88.4%
1931-35	13.8%	77.6%
1936-40	8.3%	77.0%
1941-45	10.0%	81.1%
1946-48	4.4%	75.3%
Total	7.9%	78.1%

The percentage of graduates in technical work is small and does not change with age or experience. The overwhelming majority of industrial engineering graduates are engaged in primarily administrative work from the very beginning, and they stay in that type of work.

This, plus the fact that more than 70 percent of the graduates are employed in manufacturing type industries, as cited, indicates that a student interested in administrative work in industry is more likely to start in that type of work if he studies Industrial Engineering. It also indicates that basic engineering training, in addition to its direct value as preparation for engineering work, is a good proving ground for one's administrative as well as technical ability.

CURRENT CURRICULUM

The main part of the questionnaire was designed for the second purpose of the survey, i.e., the evaluation of the current curriculum and to secure answers to several general and specific questions.

The four fields of the curriculum are rated by both graduates and companies in the following order (the highest first):

Basic Engineering
Industrial Engineering
Humanities
Other Engineering

The Basic Engineering part of the curriculum is given an overwhelming high rating by the graduates; 75.5 percent rate it high, 19.8 percent moderate, 1 percent low, and 3.7 percent did not answer. The companies accord this part of the curriculum an even higher rating; 88.7 percent rate it high, 11.3 percent moderate, and 0 percent low.

From this it can be concluded that the primary purpose of the curriculum, which is the training of students in engineering fundamentals, is correct.

Both the companies and the graduates feel that changes to the curriculum, from the standpoint of the four major fields of the curriculum, should be along the following lines:

Basic Engineering—No change
Industrial Engineering—Expand or no change
Humanities—Expand or no change
Other Engineering—Reduce or no change

In the field of Humanities both the companies and graduates feel that the following subjects should be considered for expansion in the order named: Speech, Psychology, and Economics.

The graduates and the companies favor the addition of a course in statistics but not at the expense of the existing mathematics.

A very large majority of the graduates, 80.4 percent, and the companies, 86.8 percent, favor the addition of a course in report and/or letter-writing.

There is no strong support for the addition of specialized courses in office methods or specialized industrial processes such as plastic working of metals, plastics, etc. Apparently these courses are considered to be too specialized and therefore should not be required.

The present amount of shop training, one credit each in Machine Shop, Foundry, and Welding and Forging, is adequate. However, there is some feeling on the part of the younger graduates that more machine shop training is needed.

The Development of Managerial Talent

By DONALD F. LANE
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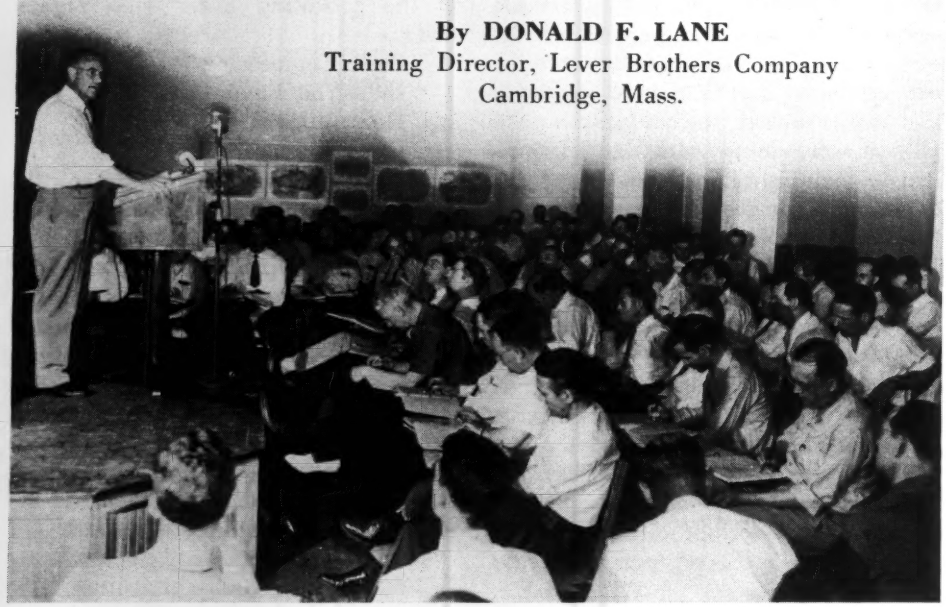


The success of our economic system depends to a great extent upon our industrial leadership. Every effort should be made to develop management people with the highest qualities of executive leadership.

IN order for any individual enterprise to remain solvent, whether it be in the United States, Britain, France, Belgium or Holland, it must provide incentive and the means for progress. The hope of profits is the driving force of venture and enterprise. The realization of profits provides the fertilization for further growth. Moreover, only a profitable business can attract and hold able people.

EFFECTIVE MANAGEMENT

The aim of an efficient operation is to produce products of good quality that will meet the people's delivery requirements at prices they can afford and are willing to pay. Attainment of this objective is possible only through an effective management that is constantly on the alert to improve its production facilities, work methods, supervisory effectiveness, employee relations, financial position and marketing possibilities.

Today, no company or country in the world has any priority on production methods, up-to-date machinery, technical skills or professional leadership. All of these can be obtained through one medium or another.

A great many companies possess the best machinery, materials, know-how, plant location, etc. However, wages go up and production goes down. More manpower is added while less goods are manufactured. Somewhere, management has failed to utilize its human resources effectively. Achieving and maintaining an efficient operation is never an accident; it is always the result of perceptive leadership and trained personnel.

Training the foreman to execute his responsibilities adequately, together with the training of the employee to utilize competently machinery, technical skills and modern know-how, are going to become the differences in the competition of tomorrow.

No company can hope to solve the many complex competitive problems growing out of future trade treaties, union demands, and government regulations, unless a progressive management point of view is exercised. The development of progressive management involves the improvement of present managers and the development of potential future managers.

The success or failure of any business enterprise is usually reflected in the quality of its management and leadership. Since the cessation of hostilities a number of management people have been prone to resort to beatitudes and platitudes in sizing up their industrial problems. Some have the feeling that past performance, government orders, cost-plus thinking, government subsidy, special tools and equipment will continue to keep their plants operating profitwise. Managers who invest their future in this type of speculation are doomed to be shipwrecked upon the high seas of competition when the storm approaches.

With great strides being made daily in technology, science, production methods, intricacies of group relationships, the managerial job is becoming concentrically more difficult. As a consequence, the manager of tomorrow must be better educated and better trained in the methodology of industrial management than his predecessor. The degree to which a company survives future competition will in a large measure be in direct relationship to the competency of its managerial and non-supervisory people.

Managers should have a broad gauge interest in all aspects of modern industrial management, whether it be finance, marketing, production or personnel. This interest can be stimulated and motivated by participating in business and professional societies, writing magazine articles, reading a variety of current books, inspecting other business establishments, inviting other industrialists and management consultants to observe your operations and exchanging viewpoints as to improving the quality and quantity of the product. Progress in any company is usually made on the basis of wise management decisions. Certainly training in its broadest aspects will increase knowledge and make for more open-mindedness.

PERSONNEL

Identifying and developing potential managers is one of the most important functions of any management. A company can only perpetuate itself by continuing to attract, hold and develop young people with high potentialities. The responsibility for recruiting, selecting, placing, inducting, training, follow-up and upgrading of personnel should be delegated to one or more full-time persons with considerable management status so as to have the necessary authority and recognition with respect to

consummating a long-range policy of personnel development.

1. *Selecting*

Because management and workers are in many instances the same people at different stages of their careers, immeasurably more emphasis should be placed on the selection and improvement of personnel. Psychologists tell us that the production in the average company could be augmented at least ten to twenty percent by merely placing the right person on the right job. Many companies are giving meticulous attention to the use of aptitude, intelligence, interest and psychological tests as a guide in selecting employees for specific areas of work. Naturally, the test scores are correlated with the findings of previous school training and possible work experience, not to mention the results of the interview itself. In one particular instance with which the author is familiar, turnover was reduced from forty-two percent to less than five percent over a period of three months, and production was increased about forty percent because objective methods were used in matching "employee profiles" with established "job profiles." It was also estimated at the cost of $200 per employee separation that $8,400 was saved through this type of personnel instrument.

The desideratum of any progressive industrial organization, from a profit point of view, should be to place every employee where he will eventually operate at his top potential. Where possible, new employees should be given the level of work assignments that is compatible with their previous training and experience. To illustrate, an all-around machinist should be assigned to work that would involve the operation of various machine tools, use of precision instruments, reading of blueprints, etc. Under-assignment of employees only contributes to conditions of neurosis, frustration and inefficiency. Job descriptions and mechanical determinations are invaluable to management for starting employees at the proper level.

2. *Inducting*

After the new employee has been properly selected and placed according to his interests, physical ability and natural abilities, the next important function is to get him off to the right start by exposing him to a systematic procedure of induction. The plant superintendent should cordially welcome the new employee into the organization, after which time he is introduced to his foreman, who should explain in some detail the various policies, rules, regulations, rates of pay and union agreement, if one exists. In large companies where many people are continually being employed or where a plant is being expanded, new employees are given group instruction by a personnel officer. In some instances films and booklets are used to supplement the information imparted to new employees. Next, the various products and business contracts for work should be explained so that the new employee is well aware that he is part of the team. Every player on a team will do his part better if he understands the rules of the game. In order for a person to see the significance and relationship of his own job to the whole, it is highly recommended that the foreman take the new employee on a conducted tour of the entire plant explaining various processes, pointing out safety measures, as well as various departmental offices, personnel, first aid, eating facilities, etc. At the expiration of the tour he should be introduced to his fellow employees and then properly trained to discharge his particular duties. Getting a new employee off to the right start will later pay rich dividends.

3. *Developing*

Every member of management from the first-line supervisor to the president is responsible for the full development and effective utilization of all branches of personnel within an organization. Naturally, a sound pattern for implementing such a program must be developed, approved and supported by all gradations of management. The work career of every individual should be projected beforehand and directed from induction to separation. Every effort should be made to satisfy the desire of a normal individual to develop to the utmost of his ability, consistent with available opportunities.

4. *Periodic Review*

Many companies in this country are getting a high degree of productivity per employee-hour by periodically, every six months, reviewing the physical condition, performance profile, training and personal relations of each employee. In order to make the evaluations as objective as possible, they are usually made by the employee's immediate supervisor, personnel officer and department superintendent.

5. *Classifying*

When employees are classified, those not up to standard are given the benefit of counsel. If a man's efficiency is impaired because of poor health, he is advised to check with the plant doctor or consult his personal physician. In some instances the employee has been assigned additional responsibility and lacks training experience in getting up to standard production. Other circumstances may warrant a change in work assignment.

6. *Forecasting Future Progress*

The records of employees classified as average are scrutinized closely to ascertain if any have dropped back one classification or have had extraordinary training and experience on a specific work assignment and should have been classified as "above average." These people are encouraged to improve their weak areas. Employees classified "above average" have demonstrated that they possess potential ability and show promise for further development. If an employee has mastered one particular job or operation that is an integral part of an occupation or trade, it is possible that his future progress can be forecast and a target position selected. For example, if an employee in a short period of time has evidenced exceptional proficiency in operating a shaper, grinder or lathe, the review committee may select the learning of the machinist trade as the target position.

7. *Training Required*

The next step will be to determine what the employee needs in the way of development to qualify him as a first-class machinist. First, a series of lateral and vertical job experiences will be charted for the next six months which might include assignments such as operating drill press, shaper, slotter, planer, etc. In order to facilitate the acquiring of such job experiences, certain related information should also be simultaneously acquired, such as blueprint reading, mathematics and shop theory. Frequently this type of training is available in the local evening school or may be scheduled through correspondence instruction. Large companies employing hundreds of craftsmen operate in-service apprenticeship programs whereby journeymen mechanics are developed through a systematic schedule

of shop experiences, correlated with related instruction which very often is offered in the plant on company time by full and part-time instructors.

If the employee continues to develop and grow through organized work experiences that have been projected for a six-months' period, then it is reasonable to assume that other series of work assignments will be scheduled until such time as the employee is thoroughly qualified to assume all the responsibilities of the target position. If, for any reason, the employee does not continue to develop according to plan, he will probably be classified as a limited-range craftsman. It is also possible that the employee has reached his top potential. However, every effort should be made at each review period to give further consideration to such a development pattern.

Some of the best foremen, department heads, superintendents and managers were originally recruited from the regular work force. Making a periodic audit provides a company with an inventory of potential personnel available. By this procedure it is possible to single out men with management potential and provide them with broad work experiences. For instance, if a machinist in a steel plant were of foreman caliber, he might be scheduled to work in the engineering, pattern, foundry, blast furnace, open hearth and rolling mills departments because his future supervisory responsibilities may involve the execution of decisions that pertain to such factors as mill tolerances, equipment design and methods of product operation. By receiving such a broad background, a machine shop foreman is better able to plan and expedite his work. In many maintenance shops, costs are excessive and cut heavily into profits because of costly technical mistakes that are frequently attributed to inadequacy of supervisors who lack broad industrial experience and technical skill.

COLLEGE GRADUATES

Technical engineering graduates are also a good source from which to select and develop future management people. Progressive companies make an effort to select a minimum number of college graduates every year. Usual practice is to interview the applicant at the plant office. However, better selections are obtained when management representatives visit the college or university and discuss with the dean or placement officer the total background of students who evidence some interest in their particular business. Other means of attracting college graduates into your organization on a permanent basis is to offer summer employment while attending college.

College graduates should be given an opportunity to learn the business in its broadest aspects. This can best be accomplished by providing a plan of departmental orientation whereby the college trainee is scheduled to observe and work in such departments as sales, engineering, laboratories, production, shops, accounting and purchasing. At the termination of such a training period, which might range from six months to two years, depending upon the size and diversity of the industry, the college trainee should be permanently placed in a department that will use his interest, training and natural abilities.

His first assignment should definitely be of a non-supervisory type. If possible, he should be given an opportunity to develop certain basic plant skills which would give him a foundation upon which to build future supervisory responsibilities. His association with rank and file will prove of immeasurable value in future years if he develops management-wise. Once college graduates are permanently placed, they should not be treated differently than any other employee. They should be elevated or given management status only after they have proved themselves on the job.

DEVELOPING SUPERVISORS

Most managements are continually alert to the need for controlling inventories and other assets, protecting their capital positions, developing improved products and expanding markets. Yet the most valuable asset of any business is its executive and supervisory personnel. The quality of supervision can make or break a company. According to a recent poll taken by the National Foremen's Institute, the foreman's success depends upon his technical knowledge—twenty-two percent; ability as a good manager and planner—twenty-six percent; ability to handle people—twenty-eight percent; and his knowledge of economic facts and truths—twenty-four percent. A supervisor's job is to work within established policies and procedures so that he will direct the employees in their use of equipment and materials in accordance with established methods so his and company responsibility for quality, cost and quantity will be met.

Many supervisors have lost that immediate, personal sense of responsibility for the control of cost and quality. Abnormal conditions have prevailed for so long that their competitive instincts have been dulled. Through the war years certain negative attitudes, which have reflected ineffective supervisory methods, were allowed to develop, such as misconceptions regarding company, competition and profits, cost-plus thinking, something for nothing, individual effort not rewarded, antagonism or indifference to free enterprise system, confusion regarding duties, responsibilities and supervisory relationships, company policies not understood or appreciated, little feeling of personal loyalty, unsolved production problems. Therefore, it is necessary to establish or re-establish a greater sense of individual responsibility on the part of all members of supervision for the control of quantity, quality and cost of production. The attitude of supervision has an important bearing on production.

Even though some companies are handicapped with respect to power supply and modern machinery, surprising increases of productivity are possible through an enlightened management attitude. There is considerable evidence that the ability of most companies to turn out better products at lower costs is limited more by the human element—by the attitude of employees toward their jobs—than by technological considerations. Therefore, supervisors should be trained to cultivate good employee attitudes.

In order for your company economically to improve its competitive position regarding reduced costs and improved quality, all levels of supervision should be exposed to periodic, long-range management development. The following points may be of assistance to you in improving the efficiency of your supervisory personnel:

1. Development of an up-to-date organization chart showing the exact relationships between departments.
2. The responsibilities of executives and supervisors should be clearly defined so as to obviate duplication and overlapping.

3. Every foreman or supervisor should have a proper title descriptive of his job or status.
4. Members of supervision should be paid a salary that is commensurate with ability and responsibility and at least twenty percent above the basic earnings of the supervised worker.
5. Selection and placement of employees should be shared by first-line supervisors; otherwise, unsatisfactory employee-supervisory relations may result.
6. Foremen should be consulted when wage rates of employees under their supervision are being set.
7. Management should place widened emphasis on the selection and development of new foremen and supervisors. A periodic personnel inventory would be of immeasurable value in making objective selections. Permit outstanding employees, including college graduates, to substitute in various supervisory capacities for men who are sick or on vacation.
8. Newly appointed supervisors should be indoctrinated in their management responsibilities by top executives and other line and staff officers of the company. This program might include training in such matters as sales, markets, costs, incentives, standards, accident prevention, employment and insurance, interpretation of company policies—including the labor contract if one exists, and human relations. It would be desirable to incorporate the highlights of these subjects into a "Supervisor's Handbook" that could be presented to each new supervisor at the end of the indoctrination period.
9. All levels of supervision should receive periodic conference training in basic supervisory principles such as inducting new employees, accident prevention, instructing employees how to perform a new duty or skill, scheduling work, anticipating manpower requirements, delegating work assignments, how to inspect equipment and schedule for repairs, preventive maintenance, arranging work methods and schedules with view to good housekeeping and safety, handling daily records and correspondence, planning for the improvement of health and welfare of subordinates, how to reprimand and discipline, how to handle a request, complaint or grievance courteously, how to sell a worker a change in work process or operation, how to overcome employee accident-proneness, getting workers to take pride in their work, how to give an order, how to handle the chronic griper, how to develop teamwork, handling the shop steward, and assisting the supervisor to further his education and experience.
10. If a climate of public opinion favorable to the continuance of our present business system is going to exist, then supervisors should be trained in the basic economic principles of the free enterprise system, with emphasis on wages, prices and profits. Your supervisors should constantly be imparting such information to rank and file employees so that they are fully aware of the benefits derived from a free economy and understand how their welfare depends upon keeping your company sound and profitable. Such economic information is a powerful inducement to workers to put their best effort and skill into their jobs to reduce costs and increase production.
11. An excellent procedure for securing cost-consciousness is to train foremen in the elementary principles of methods improvement, emphasizing such items as scientific management, origination of improvements, making suggestions, how to describe the present job and working conditions by use of layout sketches, breaking down the job by use of process charts, developing the new method, listing details of new method in logical order, writing up proposed new method, getting approval of all concerned, and selling the employee on adopting the new method. Where foremen have been properly trained to utilize the principles of work methods, departmental costs have been cut at as much as thirty percent by eliminating the waste in needless, ill-directed and ineffective motions.
12. Provide a sound incentive system for both supervisors and workers.
13. Train foremen and supervisors in the facts of time and motion study and the setting of equitable rates. This training should enable foremen to see more clearly the relation between wages paid and the product produced.
14. Weld supervisors closely to top management by setting up an Office of Management Information. The purpose of this office is definitely and systematically to make certain that management *is being constantly interpreted* to the supervisory organization, particularly since shop stewards are very likely to get information ahead of foremen. It is essential that their knowledge and information exceed and excel that of stewards and operators. Immediate steps should be taken to share all new information, decisions, policies, procedures or plans applicable to their jobs with supervisors. Some companies publish a newsletter that is distributed weekly or bi-weekly to foremen, while others hold on-the-spot meetings with supervision. Such direct lines of communication will strengthen the supervisor in retaining management's attitudes and policies.
15. When negotiating union contracts, foremen should be consulted and advised of negotiations as they progress. In this respect, management will be better fortified with operating information garnered from foremen and supervisors. Also, foremen will be more enthusiastic and better equipped with management information when effectuating new contract terms.
16. Foremen should be encouraged to stimulate employee response regarding suggestions as to cutting costs and boosting production.
17. Provide a medium through which those people in supervisory positions may work out practical suggestions and submit them to management for consideration.
18. Management should take such steps as are necessary and desirable to promote and maintain personal relationships between all supervisory personnel by conducting activities within and outside the operation. Such activities might include periodic visits to supervisory conferences, requests to address conference groups, outings, dinners, etc.

Let's Think About Results

By EDWARD C. SCHLEH
Personnel Consultant
Minneapolis, Minn.

Which is it that employees really value —music in the plant, the benefit policy, or evidence of the employer's interest? Should all company policies be company-wide in their application? The author analyses the effectiveness of common company plans.

DO WE complain that employees don't take the interest of our company to heart, don't produce at high efficiency, don't cooperate toward higher production—in short, that they don't have "results thinking"? We might define "results thinking" as the wish to help the company get a maximum return in the long run from the job. Strangely enough, our policies often as not encourage the negative thinking we decry. Let's stop to analyze not just our employees' attitudes but what it is in our policies or administration that might be encouraging these attitudes. With this thought in mind let's just hold up for critical view a few of the common policies and practices of some of the major personnel functions.

MORALE AND INTEREST

Much has been said of the value of morale and interest and often the statement that "it increases morale" has been a good enough reason for almost any kind of policy. Let's ask, "Does this policy result in more production, better quality, increased sales?" We may find it difficult to answer this. It might be done in many cases, however, were we to take the trouble to study production records, fatigue charts, personnel records, turnover reports, absentee reports, merit appraisals, exit interview reports and the many other records that could be available to spot problems. We could then do something about them and follow up through these same records to see if results have been achieved. For instance, one office found from production records that various office employees increased production when music was installed. However, even though most of the employees said they liked the music, after six months of it this production increase dribbled off to nothing. Studies have shown that employees often increase production after some change indicating the employers' interest in the employee, but that the increase tends to disappear after a few months. Incidentally, another firm that had music found that quite a few employees wouldn't make the move to a new location demanded by expanding business unless music was installed. If a policy adds little in output, but employees demand its continuation, we may find that "we have a lion by the tail."

Many times we stress the importance of teamwork, of cooperation. There isn't any question of its importance, but let's look at it from the results point of view. Some people who are always cooperating are accomplishing very little even though everyone likes them. Let's keep the primary objectives of the organization in mind. Conversely, let's try to balance the "lone wolf" operator with a little cooperative spirit, but only if this is absolutely necessary to the end result of more return to the company. We can't pour everybody into a mold and expect to get best results. We aren't all the same temperamentally.

We say morale is important to high production but let's see where it starts. Let me ask you, "How often have you seen a department with low morale that has a top-notch, conscientious, interested superintendent?" Let's solve the problem at its source, and this is often at higher levels of supervision. It was the experience of one manufacturing firm that a change of superintendents in a department with poor morale almost immediately resulted in better efficiency, lower turnover, and lower absenteeism. Let's not always pick on the foreman. Like many other employees, he, too, often follows the example of his boss.

Do we promptly step in to correct or explain any loose or costly procedure? The employee knows if we don't, and his attitudes are formed accordingly. A typical instance is that of a metal manufacturing firm that easily spent $10,000 on a "crackpot" idea that *everyone* in the plant knew wouldn't work except one engineer and an executive who was quite removed from the scene. The expenditure may have been worthwhile experimentally but, as the employee looked at it, how could he be conscientious about fifteen minutes wasted in cleaning up?

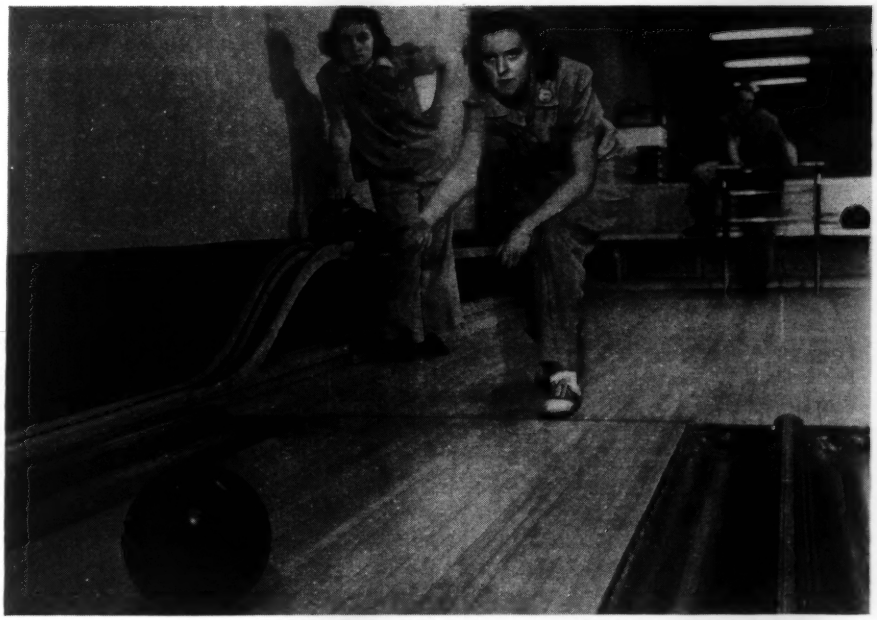
BENEFITS

Fringe benefits have gradually assumed a more and more important part in the cost of companies. How do we set these up? Simply following the trend? You want to know this but what results are you getting through these expenditures? It might pay to find out whether employees actually *want* the insurance you require and whether many even *resent* being forced to pay their part. Let's check each plan and ask ourselves, "What would result if we decreased, increased or changed the benefits under this plan?" One firm planning to pay half of a $5,000 life insurance policy for each employee was astounded to find out that over ninety percent of the employees wanted only $2,000 worth. With this feeling, any pressure to get the employee to sign up for more would probably result in a resentment against the company coupled with a considerable cost to the company for the "benefit."

Have we recognized that different employees have different interests? For instance, you probably have differences in interest between men and women, between different age groups, between dif-

ferent social and geographical groups. Will the same policies then get the best results from all? In many cases over-all company policy is detrimental rather than helpful to good efficient operation. Several companies have discovered that young girls and boys care little about certain pension plans. A requirement that they sign up and pay their part for such a program actually resulted in ill will against the company for a policy that cost the firm money.

How about these cafeterias that are run at cost (often excluding charges for space, equipment, and over-all supervision)? Do employees have primarily hard feelings about them? Are there other ways to run them and have good feelings? Several firms have decreased the cost and trouble involved and increased the employee good will by having the employees run the cafeterias themselves.



Are participants in company recreation more efficient? If so, why not broaden participation? If not, why spend money on these plans?

Have we checked to see whether participants in recreational activities are more efficient employees? If they are, why not take real steps to get broader participation? If they are not, why spend any money or time on them? Incidentally, too broad a participator often has little time for work.

Do our fatigue and production charts show that rest periods give employees a lift or are they just an extra with no results for the company? We might try to find out what difference it makes as to how these periods are used—resting, playing games, eating, etc. Some firms report that on certain jobs employees who slump in chairs or lie down in these periods are able to produce more. Things like starting and closing time and length of lunch periods are often inconvenient to the employee and, because they are, often engender hard feelings and wasted time discussing them. These policies may in many cases be changed easily. If the employee is asked about it first, he often takes it as a personal responsibility to make the new way work better.

Many of us have, for the convenience of the employees, made all kinds of payroll deductions, in many cases, compulsory deductions. Do we ever ask what these cost in payroll time and whether the average employee's feeling might simply be one of unreasoned resentment against the company when he gets his shrunken check? We might also ask whether by these actions we are developing an employee who assumes his own responsibilities. Can he be capitalistic-minded if we don't let him make his own decisions and carry them out? Why not get him away from a dependence on others' thinking and acting.

Our employment policies may also be studied in light of their effect on "results thinking." We would probably all agree that we should hire the employees best suited to our company. What does this mean in actual practice? It cannot very well be done without an analysis of people we have hired in the past who were successful as well as those who were failures. For instance, a rubber products company found that the policy of hiring only high school graduates led to high turnover and relatively poor production with a poor employee attitude on a routine assembly job. Hiring employees of relatively low intelligence level without regard to education corrected most of this trouble. In a food company high ranking engineering graduates hired for factory supervision became very dissatisfied with the slow advancement and limited scope of engineering work required. Practical men with years of plant experience were then hired for these jobs. They did better work and took more of an interest in their jobs. Dissatisfaction and unrest among hourly workers almost disappeared.

There has been a trend in recent years toward demanding college men for sales positions. Several firms have found on analysis that these men often become dissatisfied and do a poor job while men hired with certain personality traits regardless of intelligence or education were generally more successful in certain sales jobs.

Have we made sure that our wage and salary plan encourages and rewards greater production? Let's ask, "Does our compensation plan impress men at every level with the fact that production not just seniority pays off?" Are rates for different jobs based primarily on value to the company and not on length of service, personality, and knowledge? In looking at any rate let's ask, "Are we getting our money's worth? Will we get $20 more in output if we pay $20 more?"

Do we have ranges and, if so, how do we use them? For instance, an automatic (or, as many plans degenerate, effectively an automatic) increase plan may be in effect, encouraging, as it does, tenure and not good work. Perhaps a closer control of merit raises with results in mind would get more out of the plan. One firm got little result from merit ratings when the supervisor was not required to talk them over with his employees. Moreover, even when he did talk them over, the results were often minor or even negative until each supervisor was trained in methods of using merit appraisals along with objectives of the job to encourage employees in the direction of results for the company.

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We often use surveys to establish our ranges and perhaps we equate to the average. Experience has shown that being equal to or higher than the average does not necessarily constitute better employees. Let's consider going rates, but why not relate them more particularly to the jobs in our company. For example, in one company designers did work similar to that of designers in other companies in the area. However, possibility of losses resulting from errors was much greater. A policy of hiring the best designers even at very high salaries paid off for this company.

Have we made provision for the special thinker, the man who gives a little extra? Does he get his reward and does he get it promptly? It might be questioned whether saying, "Six months from now we're going to consider your contribution at your annual review" is a very great stimulus. Frequently, little added consideration *is* given then.

As we come to supervisory and executive levels, results become even more important. Executive compensation should certainly reflect contribution to the firm. Often we have tended to practically reduce this, too, to an almost automatic yearly basis. First let's set goals for each position and then if they are reached or exceeded, reward accordingly. And remember, many companies have found that attitudes of employees are influenced by the attitudes of supervisors and key men. Do we impress supervisors and executives by *our dealings with them* that our company pays off on results? Over-all, we should determine through a study of organizational objectives just what is expected of each division, section, and job in actual results, *not just in work*, in order to carry through with this thinking.

Many of us have some kind of training program under way. Possibly someone has organized a very effective presentation complete with charts, movies, and illustrations. Of course, these are of value, but has anyone asked, "How will this program help us produce more cheaply, sell more, or make more profit?" Have we attempted to measure its results or said glibly, "It's not measurable." In some cases it may just be possible that some of these immeasurable results aren't there. In one study an induction training program of seven hours was reduced to about one hour with an over-all increase in effectiveness. To do this, control groups of new employees who had taken the training as well as groups who had not were given a well-worked-out questionnaire. In addition, turnover rates, absentee rates and production records were studied.

Much has been said for the effectiveness of discussion and conference groups in putting over an idea. To help them be more effective let us ask simply, "Can we prove that we get more results through them or does the employee value them primarily as a break in the day or as a chance to get some overtime?" It seems to be the considered experience of many companies that simple job training such as the JIT program is most effective in teaching a man to do a job. We might question then whether a conference method is always best for training supervisors. In addition everyone doesn't need the same kind of training and, in fact, departmental needs may be very different. Incidentally, where is training most effective? Have we considered the second and third levels of supervision instead of assuming that best results will be obtained by concentrating on first levels?

These are only a few of the things that might be approached when we think of bringing our employees to "results thinking." Each problem finally becomes personal as it deals with a person or group of people but one over-all objective of a greater company result carries through them all. We use all the accumulated knowledge that has been developed on employee attitudes and opinions, always observing the various indexes and records that are available on our own work force.

We would note, however, that this kind of reasoning leads toward the development of "results thinking" in the supervisory, staff, and executive levels of our firm. Without this thinking being firmly intrenched at these levels it may be difficult to convince first-line employees of its worth. Strangely enough, establishing policies and administration according to these principles results in a better understanding of the objectives of the company by all employees and a more realistic appreciation of what's expected of them. This, in turn, reduces a considerable part of the confusion in the organization and results in better employee relations with a smoother running organization.

Labor Roundup

By PAUL KING

Assistant to the Director of Personnel Administration of the Bigelow-Sanford Carpet Company; Member of the New York Bar

No Ax for Management Trainees

With the emphasis on cost reduction these days, many training directors wonder when the ax will fall on their management-trainee programs. Their anxiety is partly caused by this kind of comment: "How can you, in all fairness, lay off experienced foremen and supervisors and at the same time recruit bright and personable fledglings from the country's universities to be trained as junior executives?"

An informal survey of ten large companies with heavy experience operating management-trainee programs brought out that only one company felt its training program would be dropped in bad times.

Reflecting the point of view of the other nine companies, one director said: "When business tightens up, your first thought is to increase the efficiency of your operation. You improve your old machinery and buy new and more efficient machines. Likewise you should improve your human efficiency and purchase new and more efficient supervisory personnel."

Company Stock After Retirement

As a general rule executive bonus plans provide for cash payments at once. Under the newly-adopted "Extra Compensation Plan" of the Otis Elevator Company, however, the bonus is paid to senior officers and major executives in two equal parts: (1) cash that is paid immediately and (2) company stock that is delivered in equal installments *after their retirement*. Only common stock in the treasury and purchased on the open market can be used for this purpose.

However, key employees, who also participate in the plan, receive all of their bonus in cash and at once.

A committee consisting of several members of the Board of Directors appointed by the Board determines whether a payment should be made in a particular year, and when and which individuals are eligible, and the extent of participation of each.

The money for the plan is determined each year by the Board of Directors under this formula: eight percent of the net income of the preceding year (after taxes) but less eight percent of the average of the net worth of the company at the beginning of that year and the net worth at the end of the year.

Wallet-Size Union Contract

Peter Eckrich & Sons of Fort Wayne have printed their contract with the union so small in size that it can be carried in a wallet or billfold. Although it is only 3¾" by 2¼", it is still readable. The contract is printed on "Bible paper," which is very thin but still opaque. With a booklet this size there should be no excuse for the foreman or worker not having it around to settle an argument on the spot.

Time-and-a-Half for Pickets

Time-and-a-half for pickets is the latest demand made by labor. Fortunately, the demand was made of a union — and not of an employer.

Pickets sued a union under the Wage-Hour Law for overtime on the picket line.

The Court threw the case out because the complaint did not contain an allegation that the pickets were engaged in interstate commerce or the production of goods for interstate commerce. (*Cox v. Cannery Union*, 9 *WH Cases* 136.)

Productivity Information

With the return of the competitive buyer's market began the struggle to increase the productivity of American labor. Realizing the interest and importance of the subject, the Bureau of Labor Statistics only a few months ago published a helpful booklet called *Major Sources of Productivity Information*.

The introduction states that "the Bureau of Labor Statistics . . . and the National Bureau of Economic Research, a private research agency, do extensive work in this field . . . " "Trade associations, colleges, and individuals have all made important contributions. The sources described . . . are not exhaustive, but it is believed that most of the principal research agencies have been included."

There is no charge for the publication.

Severance Pay on a Plant Shutdown

A worker who is 50 years old and has had 20 years of service should be given a year's pay if the company permanently closes down the plant. If the worker is only 22 years old, and has had two years of service, then two weeks' termination pay would do.

These were the conclusions of Solomon Barkin, Research Director of the Textile Workers' Union (C.I.O.), presented at a recent meeting of the American Management Association. This rule of thumb should apply to single mill towns or other towns where, because of the scarcity of jobs in the area, it is extremely difficult for the workers of a shut plant to secure work. The older the employee, the larger the termination pay, because of the increased difficulty of finding a job.

This schedule, thought Barkin, would not necessarily apply to a many-industry city such as New York.

Pension Plans are Non-Contributory

Last month the editor of this column disagreed with the conclusion of the President's Steel Industry Board that pension plans, approved by the Bureau of Internal Revenue, indicated a trend toward the non-contributory plan.

Our analysis was confirmed in the October *Management Record* published by the National Industrial Conference Board. It agreed that the non-contributory trend shown by the Bureau's approved plans was abnormal.

Going further, however, the NICB unfolded its own survey of 255 pension plans started or revised since October 1945. The trend: 58.8% of the plans covering 1.5 million workers were contributory.

Does the AAA Practice Law?

The lawyer has never been a too-welcome guest at the union contract negotiations table.

The increasing number of union contracts that provide for arbitration of labor disputes instead of resorting to courts, the many statements made by public-spirited citizens reminding management and labor that they ought to settle their differences of opinion out of court bear witness to some of the antipathy toward the lawyer when it comes to labor relations.

The Nebraska Bar Association, apparently sensitive to this feeling, has asked the state court to dissolve the American Arbitration Association in Nebraska (24-LRR 326). It was accused of maintaining a court under the name, "Panel of Arbitrators," and of practicing law without a license.

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The December, 1949, issue of Advanced Management, Volume XIV No. 4, marks the first appearance of the two magazines combined as one. The combined publication now appears monthly under the title, "Advanced Management," combined with Modern Management.

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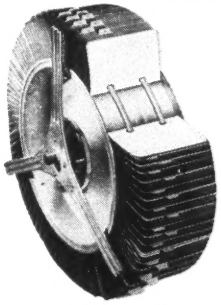

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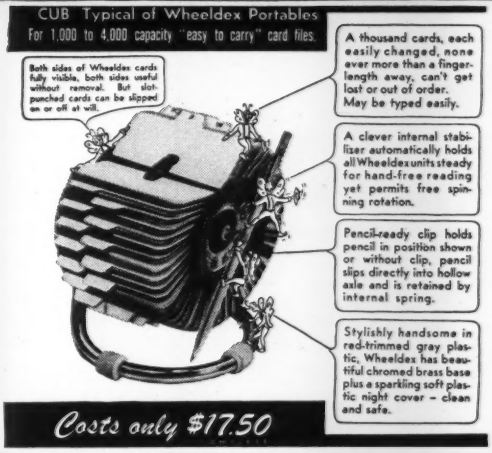
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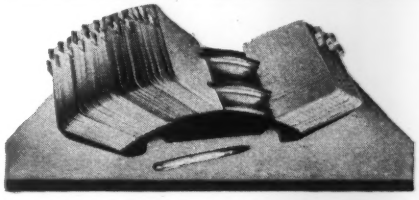

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COMPETITION: *The Challenge of the 50's*

Organizing for Competition, by Claude V. Swank, Vice President, Johnson & Johnson
Management's biggest problem in organizing for competition is to ensure a balanced organization that derives its effectiveness from the cooperative unity of its interdependent parts.

Management Looks at the Break-Even Point, by Fred V. Gardner, Fred V. Gardner and Associates
Management must translate static facts into dynamic statistics to get the kind of information it needs to control costs, make reliable estimates and increase productivity.

Why More Industrial Engineers Don't Get Into Top Management, by Bruce H. Wallace, Vice President and Treasurer, Otis Elevator Company
The industrial engineer must cease to be a specialist and broaden his knowledge of the over-all operation of his company to qualify for top management responsibilities.

Managers and Cost Control, by Harold F. Smiddy, Vice President, General Electric Company
How to speed up inventory turnover, and other cost reduction measures designed to increase production and maintain quality standards with full consideration of human relations principles.

Decreasing Costs by Increasing Unit Sales, by Dr. Herman C. Nolen, Vice President, McKesson and Robbins, Inc.
Increasing line extensions or unit sales is an effective method of combating higher marketing costs. Reduction of competing items in the line is also profitable.

Materials Handling: An Important Tool of Cost Reduction, by Otto G. Schwenk, Vice President, Yale & Towne Manufacturing Company
In an efficient mechanized handling system, management is finding one solution to its most vexatious problem —the reduction of operational break-even costs.

The Business Outlook, by Cloud Wampler, President, Carrier Corporation
The system one company uses to measure the composite effect of changes in general business conditions upon the company production program.

Revitalizing Sales in a Competitive Market, by Eugene B. Mapel, Vice President, Methods Engineering Council
Management needs a realistic analysis of every phase of the marketing job to develop the most effective and economical sales activities.

How Work Simplification Helped Improve Our Human Relations Program, by Raymond P. Norton, H. P. Hood & Sons
Properly applied, a work simplification program will help reduce costs and raise productivity without harmfully affecting employee attitudes.

Better Quality is a Tool for Competition, by Dr. Joseph M. Juran, Professor of Administrative Engineering, New York University
Achievement of better quality at lower cost requires an intelligent program that will show every man that quality is his personal concern.

Sound Human Relations—The Only Way to be Competitive, by J. Ward Keener, Vice President, The B. F. Goodrich Company
Any product or service must be well advertised and well sold if the desired action on the part of the consuming public is to be stimulated. This is also true in the employee relations field. There is no process of automatic absorption.

Increasing Productivity Through Better Methods, by H. E. Blank, Jr., Editor, *Modern Industry*
Improvement in methods should be at the core of all efforts to reduce costs and improve a company's profit performance.

A Fair Day's Work, by Dennett F. Howe, Director of Industrial Engineering, Procter & Gamble Company
A scientific method of determining "a fair day's work," a question that often lies at the heart of labor-management negotiations.

Why Neglect Incentives? by Phil Carroll, Registered Professional Engineer, Maplewood, N. J.
Willingness to work is an attitude that needs resurrecting. Incentives can assist. While incentive premiums will not buy any more than other dollars, there is a higher degree of self satisfaction that comes with them.

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